

The Failed Experiment of Vancouver's 2010 Olympic Village

BY WILLIAM P.J. MCCARTHY, CRE, FRICS, CPM

PROLOGUE: ON JAN. 17, 2009, THE LEGISLATIVE ASSEMBLY for the Province of British Columbia met in an emergency session in the Provincial capital of Victoria. There was only one item on the agenda to be debated and voted upon. The City of Vancouver, set to host the 2010 Winter Olympics in less than thirteen months, had petitioned the Province for the authority to amend the city's Charter. This unprecedented request and its urgency was to permit the city to temporarily have authority to use its financial reserves and borrowing authority to bail out a private developer and its failing condominium development that was set to serve as the Athletes' Village for a two-week period in 2010. Without these special powers, the only lender the developer had been able to secure, a struggling New York hedge fund, would force the one-billion-dollar-plus project into default. If this were to occur, the city would be in default, having explicitly subordinated itself to the lender and become the de facto guarantor of the entire project, thereby subjecting itself to all of the risks and liabilities and certain and significant financial losses.

What occurred in Vancouver is a graphic and still unfolding case study on what occurs when cities put themselves and their taxpayers at risk with little possibility of achieving the lofty goals and agendas used to justify these types of undertakings. Politicians and their bureaucrats often become enamored by such mega projects, especially if they can attach their own agendas to them. To promote these projects and subsequently justify them usually requires some cause, in this case, branding what was to be a private condominium development as Vancouver's Olympic Village. Therefore, what occurred in Vancouver should cause others to exercise caution. These "vanity" projects generally never perform as promised

and there are often measurable consequences and losses that result.

The public and private interests that had promoted and approved this experiment and expected to benefit from its success were now forced to explain what had happened and why they had authorized a development that now placed the city at serious financial risk. The year before, Vancouver's current mayor had won a resounding election victory partially by promising a full and open hearing on this project, stating that the city stood to lose \$1.0 billion in the process. His subsequent efforts to limit the city's exposure also failed. This was not meant to happen. As described in a February 2009 article in *The New York Times*:

The Olympic Village development, intended as a green demonstration project, "has transformed city building in every aspect." The Olympic Village site, a rare case in which the entire neighbourhood has a LEED Platinum rating, features a net zero building that produces as much energy as it uses, sites for

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urban agriculture and a neighbourhood energy utility that uses heat recovered from raw sewage to heat all the buildings in the development. And the area around the Village is becoming a cultural and residential destination.

—Quoted within the above is Brent Toderian, then City of Vancouver's director of planning.¹

This optimism and blind faith in their vision and abilities began in 2003, when the City of Vancouver won the international bid to host the 2010 Winter Olympics. Included in the Vancouver bid was a commitment to expend \$30 million on athlete accommodations for the two-week event. How then did Vancouver and its taxpayers come to lose hundreds of millions of dollars, with losses continuing, on a condominium project that has yet to sell out over six years and went into receivership just months after the close of the 2010 Winter Olympics? How and why was the debt and hundreds of millions of dollars of losses transferred onto the Vancouver taxpayers with seemingly little or no consequences to those public and private individuals who conceived, promoted, developed and marketed the project? Rather than set a new standard in planning, Vancouver's Olympic Village is instead a case study on what can occur when urbanist ideology and agendas, political expediency and cronyism and greed trump true market competition and discipline. By any measureable standard, this is a failed project.

In 1998, Vancouver formed a Bid Committee to pursue the 2010 Winter Olympics. British Columbia and the city's bid for the Games incorporated into their submission plans to house Olympic athletes and officials in what are generically known as "Olympic Villages." In recent Olympics, several of these Villages have been hybrid public and private residential developments that are leased or sold after the Games. When public funds are in play and at risk, there is always the potential for controversy and conflict in trying to merge public and private interests. These projects can also become politically-driven, not market-driven developments. Without the discipline and consequences of an open market, the subjective replaces the objective.

The Olympic Games are now also widely perceived as important promotional opportunities for cities to reinforce their claim as 'world class' destinations for tourists and capital in the global economy...The Games have also been envisioned by civic elites as opportunities to develop under-utilized land through

the construction of extensive Olympic Villages that can, in turn, be sold as luxury condominiums.

Vancouver's aspirations were no different in 2010: To promote itself as a large world class cosmopolitan gateway to the Pacific Rim... but it was a flawed process.²

This project also highlights a need to objectively and systematically assess "smart growth," green building initiatives, urban sustainability and the merits and practicality of the Leadership in Energy and Environmental Design (LEED) standards and the certification process. Vancouver planned to transform the 80 acres surrounding and including the Olympic Village site into a green urban oasis. The city also believed it would be able to combine costly subsidized housing together with top-end luxury condominiums whose prices were initially listed above those of downtown Manhattan.³ Both the green and social housing initiatives were used to secure political support—with little attention given to their cost or risk implications. City bureaucrats and politicians expected to be proclaimed urban visionaries and geniuses. Special interests were also pleased and empowered that their demands for social housing, green initiatives and other amenities had been met—and rather easily. Those who were to develop, build and market the project expected to make a lot of money and establish and market their personal "brand."

The Olympic Village story is still unfolding, as are the fallout and financial costs to the city. The fourth consecutive City Council to have oversight on this file, like its predecessors, is trying to spin the story to meet its current political agenda. Many of the city's bureaucrats, planners and consultants who are responsible for this project continue on in their roles. Most of the local real estate and development community downplay publicly (but not privately) the end results rather than jeopardize their own interests in the hyperactive real estate market in which they work. The local press, most of which were often slow to grasp or investigate what was unfolding on this story, did not distinguish themselves. With some exceptions they provided either incomplete analysis or merely regurgitated what was presented to them by the city, the developer and marketer of the project and their media and public relations consultants. There has been a concerted effort by those most associated with the "Vancouverism" urban brand and the city's attempt to be a leading-edge city to mitigate the Olympic Village failure. Its failure will be viewed as failure. Losses will be

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extensive and ongoing because of the city's entanglement in the project.

Vancouver City Council knew as early as the summer of 2007 that the Olympic Athletes Village was in jeopardy and that the city's own financial investment in the project was at risk... The city is responsible for the entire cost of the \$1 billion project, a fact now increasingly inevitable: Construction of the Olympic Athletes Village will lead to one of the biggest financial losses in the City of Vancouver's history.⁴

This was not supposed to happen. The Olympic Village and the development of the surrounding Southeast False Creek (SEFC) lands were to set the bar higher for progressive green urbanism with a Vancouver touch. Directly across the "False Creek" or inlet from where British Columbia's highly successful Expo '86 World's Fair had been held almost 25 years before, the Olympic Village and the publicity that the city and Province would receive from the 2010 Olympic Games would be used to market the Province, the city, and their lifestyle. It would justify the current high housing prices in the city. It would promote the community's commitment to sustainable and all-inclusive housing and development initiatives. With such a diverse and intense agenda to achieve within a very short time period, it is not surprising that those most responsible for the project let their ideologies, enthusiasm and greed far exceed their actual expertise and competence. As a result, Vancouver is now one of the least affordable cities in the world, with its civic budget heavily reliant on property taxes and development cost charges.⁵

To understand how and why this project unfolded as it has, and why green initiatives led to red ink, we must review and understand the chronology of these lands, the City of Vancouver's approach to urbanism, and how this city's politicians and bureaucrats handled the most important redevelopment and construction project in its history.

THE SETTING: VANCOUVER'S FALSE CREEK

The location of Vancouver's Olympic Village is on the southeast bank of the city's former industrial waterway inlet, known as False Creek. For more than 100 years, this location housed numerous industrial enterprises. For the past 40 years, successive Vancouver Planning departments and civic governments discussed and debated redevelopment scenarios for this prime site. All of these plans focused on the trendy urbanism themes of density, green initiatives and the generic "smart growth" mantra.

Figure 1



The City of Vancouver's Southeast False Creek (SEFC) lands are outlined in red. The development site that includes the 2010 Olympic Village is in the center of this parcel.

Source: <http://vancouver.ca/commsvcs/southeast>
Photo Credit: Eagle Eye Flying Cameras

Leading up to the adoption of the SEFC policy statement approved by Vancouver City Council in October 1999, successive city governments and planners proposed several master plans for the public and private lands. These included traditional high-rise office and residential towers as well as blended projects with a variety of buildings and heights. By 2002, the City of Vancouver made sustainability criteria a major part of its Official Development Plan (ODP) for the SEFC lands. Incorporated into these plans was the sustainability challenge issued by a 1991 City Council declaration:

On the south shore of False Creek; develop a neighborhood that is the model of sustainability, incorporating; forward-thinking infrastructure; strategic energy reduction; high performance buildings; and high transit access.⁶

VANCOUVER SEEKS THE 2010 WINTER OLYMPICS

In 1998, Vancouver and the resort ski village of Whistler, British Columbia began the process of submitting a bid to host the 2010 Winter Olympics. As part of any bid submitted to the International Olympic Committee (IOC), accommodations for athletes and officials must be addressed, and specific details with regard to the "Olympic Athletes Village" provided. In previous Olympics, existing facilities such as university or institutional dormitories have been used. More recently, housing developments also have been constructed to house the athletes; afterwards, governments retain some units and sell off others. What was conceived and constructed in Vancouver for the 2010 Olympics was unprecedented.

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On July 2, 2003, Vancouver won the bid to host the 2010 Olympic and Paralympic Winter Games. At this point, only the 2002 Games Facility Agreement addressed the requirement for an Olympic Village, with a \$30 million contribution towards these accommodations.⁷ In July 2004, Vancouver formally adopted its SEFC green building strategy. But rather than the narrow high-rise developments, reflective of what the city refers to as "Vancouverism," the city's then Planning Department instead arbitrarily decided that a collection of low-rise mixed-use structures, reminiscent of former east European cities, would be built. This decision would turn out to be perhaps the most critical and costly miscalculation in the entire process. Had high-density towers been constructed by experienced developers and contractors, they would have easily been occupied and rented or sold after the Olympics. And, with the towers' smaller footprints, the city could have saved considerable environmental remediation costs and provided much needed park and green space by making the acreage around the property a collection of green space, parks and sports facilities.

On March 1, 2005, Vancouver approved its ODP for the SEFC lands, followed on Dec. 21, 2005 by a formal request for proposals to develop the 2010 Olympic Village. Fully seven years had expired since Vancouver's Olympic Bid Corporation was formed, and almost two-and-a-half years had lapsed since the city had been awarded the Games. Vancouver now had just over four years before the 2010 Games to plan and construct untested urban models with unproven green technologies and to do so in the midst of a global economic downturn.

Instead of being concerned about the logistical and time constraints of this project, a review of the record of public debates and the confidential Vancouver planning deliberations that subsequently emerged, the city and British Columbia became empowered by the thought of developing a project that would buttress Vancouver's efforts to brand itself as a leading edge urban centre, whose leaders and planners would set future standards for other cities to try to emulate. In a 2006 article in *Canadian Geographic*, Vancouver was referred to as "Futureville," with "the fastest-growing downtown core in North America and... becoming a showcase for the greatest urban experiment since the 1950s." The Olympic Village would become the neighborhood of the future "where cars will have a tough time finding parking," and energy generated from sewage will be used to heat most of the neighbourhood.⁸ This

article further stated that even before construction began, this site had "already profoundly influenced a new generation of architects, designers and buildings."⁹ Having boasted so boldly to the international community and especially within the urban and planning sectors about what Vancouver was going to achieve, the city has subsequently devoted considerable resources and efforts to save face and spin the results of what occurred with regard to this vision.

It should have been obvious from the outset that there would not be enough time to conceive, design and build a multi-faceted public and private partnership development centered on an untested concept to combine low-income affordable housing with some of the most expensive condominium units ever developed. Furthermore, leadership insisted that the highest level of green building initiatives and technology be used, which would further add to the time and costs to complete. In addition to these design and planning challenges, the city would also be responsible for the extensive environmental remediation and costs related to the city-owned properties' previous use as industrial sites. The remediation work, combined with other civic amenities including a new community centre, would cost Vancouver hundreds of millions of dollars. The private developer who would be selected to construct the Olympic Village would therefore be the beneficiary of unprecedented amounts of civic infrastructure, amenities and civic goodwill prior to committing its own capital.¹⁰

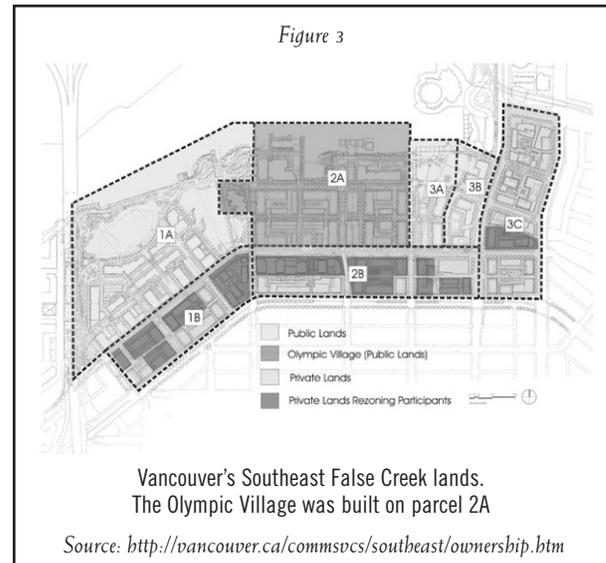
HOW NOT TO BUILD A VILLAGE

Throughout the entire process, successive city governments would prove susceptible to their biases and the agendas of their political supporters, the real estate development and construction community (their largest financial supporters), and several other lobby and activist groups with their own wish lists. The pressure of meeting the mandated deadlines by the International Olympic Committee would also drive up costs. Had the city conducted proper due diligence and risk assessments before committing to its Olympic Village concept, or considered other more traditional athlete accommodations for the one month required for the Olympic and Paralympic Games, this project would likely never have proceeded.

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The SEFC lands consist of approximately 80 acres (32 hectares) of which 50 acres (20 hectares) were owned by the city. Parcel 2A would become the site of the mixed-use development project originally known as Millennium Water, named after the developer, Millennium Development Corporation, that incorporated Millennium Southeast False Creek Properties (MSFCP) Ltd. to develop the project. Millennium Water would temporarily house the Olympic athletes and afterwards become 252 units of social housing owned by the city and 856 market condominiums sold by MSFCP Ltd. MSFCP would be the developer for the city and itself, earning fees throughout the process. The city, therefore, became totally dependent on one firm for the most expensive project in its history.



On April 6, 2006, Vancouver City Council selected MSEFC Ltd. as developer of the Olympic Village. The key determinant would be MSFCP Ltd.'s offer to pay \$193 million for the land component (later raised to \$200 million when a section of privately owned property was bought by the city and transferred to the site).

How and why MSFCP Ltd. was selected as the developer of the Olympic Village project and provided with the potential to achieve a financial windfall should the project succeed as envisioned, was and remains controversial. Only three development proposals were submitted to the city for the final decision, where a group of officials would secretly select the Village's developer. (That only three contenders emerged should have been further evidence of the high risks involved). According to the City of Vancouver's own reports, each bid was assessed on an evaluation matrix which was comprised of 57 individual criteria, grouped in three categories.

An Evaluation Committee comprised of eight senior staff was convened to undertake the evaluation of the Respondents' proposals. An additional three non-voting staff members also provided support and resources, and a fourth non-voting committee member from VANOC provided technical advice and resources related to the VANOC Olympic Village requirements.

The Evaluation Committee reviewed each proposal in detail using the evaluation matrix ("Evaluation Matrix") and methodology. ... Respondents were also invited to participate in formal interviews with the Evaluation Committee.¹¹

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To date, the members of this select evaluation committee and the details of its deliberations and individual and collective votes on the evaluation matrix remain confidential. This matrix was long on phrasing, but not specific on financial and performance benchmarks. It put in context the role and importance the city planners placed on urbanism and sustainability, and its social housing agenda.¹² What we know from city records is that after the first round of evaluations, MSFCP Ltd. was ranked third of three bids. What occurred next has yet to be thoroughly or satisfactorily explained, and the city has not been forthcoming on its actions. The evaluation committee undertook a "second review," this time "to determine which of the proposals offered best value. A sensitivity analysis was performed to measure the impact of purchase price on the total points achieved for each proposal."¹³ What constituted this "sensitivity test" was not explained. As a result, the last place finisher was declared the winner of the contract.

Therefore, despite designing an evaluation matrix heavily weighted on intangibles such as social housing, sustainability and green building initiatives, ultimately a fictitious price trumped these. MSFCP Ltd. offered a purchase price of \$193 million, a then record for buildable land in the city. (How and when MSFCP Ltd. conceived this bid price is not public record. It was the highest bid by \$20 million). In reality, MSFCP Ltd. would never actually pay this amount and submitted only a \$29 million deposit (about 3 percent of the proposed project), when it effectively won the bid. In addition, a city process that did not require the bidders to submit full financials and other information as would generally be expected in a project of this size continues to confound. It appears that whatever was submitted by MSFCP Ltd. was accepted as fact, with few questions asked, and those that were asked were not challenged. Instead, the city entrusted the prestige of its Olympic Village Project and the construction of its own 250 social housing units to a developer who almost immediately faced cash calls. (One city official did show leadership. The city's longstanding chief financial officer, Estelle Lo, vigorously objected to the design and implementation of the bid process and raised practical and prudent questions about the ability of the bid winner, MSFCP Ltd., to have the resources and ability to complete a very ambitious program within a tight timeline. The warnings of this conscientious civil servant were not heeded, and Lo "left the city" with a significant severance package and a tight non-disclosure agreement. Who forced Lo out and why remains unexplained).¹⁴

On Aug. 10, 2006, MSFCP Ltd. submitted its rezoning application for the Olympic Village site to the city. The Official Development Plan for the Olympic Village site was ambitious. Based on a unique and unproven blend of social housing (mandated by the city) and very expensive market condominiums, the overall project would attempt to create an instant neighbourhood and village center—and in time for the Olympics, then just three-and-a-half years away.

Once selected, MSFCP Ltd. engaged the city's most prominent condominium marketer, Bob Rennie and Rennie Marketing Systems (view his firm's Web site at <http://www.rennie.com>), to advise on the pricing models and marketing of the units, and to conduct the pre-sale and sale campaign for the market condominiums. Vancouver and all associated with this project, and those who stood to benefit greatly financially and from the prestige of being associated with such a cutting-edge project, were wildly optimistic at this point. Despite the city's having to incur the remediation costs of the land and fast-tracking its plans to establish a walkway and other public amenities around the Olympic Village Site, it expected to net tens of millions of dollars. The amount of profit the developer expected to make is subject to conjecture, but based on its pricing models, it would likely have been in excess of the \$135 million net profit (not including other fees and monies the firm would generate if the project succeeded) that was reported to the city in October 2008 when the project was failing and the city became the de facto bank for MSFCP Ltd. Please note that throughout the entire project, MSFCP Ltd.'s reported total equity contribution was only \$29 million. The city also continued to state that it would make, not lose, money on this venture.¹⁵

Rennie's listing agreement and commissions and marketing fees (all passed on to the consumer and now taxpayers) are extremely lucrative. While the Rennie Marketing contract with first the developer and then the city (after the project went into receivership), are not public record, in a subsequent auditors' report to the city, based upon Rennie's own submission, in 2008 his pricing model, (which was proven highly inaccurate), projected the gross residential sales proceeds from the market condominiums to be \$1.09 billion (\$1,273,365.00 average over 856 units). Rennie Marketing's stated commission on this projected revenue was \$27 million. This equates to a sales commission of \$36,735 for each of the condominium units. Rennie's long purported fee to market

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Vancouver condominiums is \$50,000 per unit.¹⁶ (The developer's total equity injection would therefore barely meet the sales commission projections.)

The Olympic Village project was to achieve two Official Development Plan performance benchmarks.¹⁷ The first was the "November 2009 Olympic Ready Commitment," whereby the developer was to have completed and be prepared to deliver to the city and the 2010 Olympic Committee "a 17-acre village to house up to 2,800 athletes and officials." The 1,100 units would be composed of 250 social housing units, 730 market sale units and 120 rental units. The second phase, the "Market Ready Commitment," was to be completed by September 2010, after the February and March 2010 Olympics and Paralympic Games. At this point the developer would deliver the 850 market residential units (730 condominiums for sale; 120 rental units, with about \$1.0 million square feet of space) and 69,000 square feet of commercial space to sell and lease. The market-ready facilities would complement the city's 250 social housing units owned and rented out.

If, and only if, the market units sold at the very high prices that had been set, and sold rapidly, would the city remain in the black. The city had no "Plan B," and no contingencies should its assumptions fail. Subsequently, Vancouver documents show that almost from the time the developer was selected, the project was in serious financial and operational trouble. If the city could not fully grasp what was occurring—why not? If it knew, then what motivated it to proceed, and in a secretive manner?

Figure 4



The Olympic Village Under Construction

Source: City of Vancouver Web site
at <http://vancouver.ca/olympicvillage-update.htm>

Vancouver had selected a developer without the financial or operational resources to complete the project—information that would have been obvious to city officials had they

conducted professional due diligence or selected independent analysts to do so. Rather than face reality and acknowledge their errors, those entrusted with governance over the file chose neither to dismiss the developer nor scale back their project. Instead, and in secret, the city retained the developer and marketer, becoming their biggest boosters. The result is that its banker and its performance guarantor ultimately had to absorb the losses.

In an October 14, 2008 Vancouver Administrative Report, remarkable for its self-serving prose and defense of the city's actions to date on this file, went over the top in defending and praising the current developer, MSFCP Ltd. The report stated "There is no compelling schedule or budget reason for 'taking out' Millennium." This was the first of ten reasons the report cited as to why the city (taxpayers) should retain the developer and embrace and support it. The report stated that neither the developer nor the city was responsible for the project's problems.

The market issues facing Millennium are of a global scale and it would be regrettable for one of Vancouver's leading development firms to lose their reputation, corporate image, and product brand for stepping forward to become the developer of the buildings for the Olympic Village in what has turned out to be difficult times.¹⁸

(The above-mentioned report was prepared by Jody Andrews, the individual responsible for this file, who had previously prepared many of the reports that the city's Olympic Village plans were based upon, as well as the selection of MSFCP Ltd. as the developer. The reports were long on narrative with virtually no real estate analysis to support their conclusions. Andrews would leave his position four months later).

To recap, MSFCP Ltd. agreed to pay the city approximately \$200 million for the land. They won the bid on this basis, yet records show it paid the city a deposit of only \$29 million, but no more—why? The reason given by the city and MSFCP Ltd. is that the city decided to retain title to the land to ensure the project was completed in time for the Olympics—after which time MSFCP Ltd. would pay all funds owing, receive title to the land and complete the sale of any remaining market units. However, this explanation does not address the underlying question. The best guarantee the city or any seller can have is to receive the full sale price. It is straightforward to prepare and execute performance contracts and bonds to further ensure compliance and

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completion. This is the standard and prudent action of any seller. The timeline of MSFCP Ltd.'s money problems is important to highlight. It was selected without thorough and systematic due diligence as the Village developer in April 2006, and had been preparing its bid well before this date. Before 2007, however, it was negotiating with the city for loans. Any subsequent claim that it and the city were victims of the 2008 global economic recession is, therefore, suspect. It was in trouble from the beginning. This accommodation and subordination by a city to the developer is troubling.

The biggest problem is that all major decisions took place behind closed doors. In terms of democratic input from citizens over how their tax dollars were being spent, city officials, the developer and others argued that because of the repercussions for the private sector they couldn't discuss it publicly . . . as the Olympic Village costs mounted some of the grandiose ideas for green, state of the art housing development (not a requirement of the International Olympic Committee) had to be shelved.¹⁹

The subsequent excuse used by MSFCP Ltd. and its defenders for its financing problems was that without title to the lands, it could not secure construction loans. Again, this explanation is also suspect. Construction loans are based upon equity in the project, a tight pro forma, and guaranteed sales and leasing. Hundreds of qualified banking analysts would have reviewed this file—and passed. And, what stress tests or analyses (if any) were conducted by the city? What were the conclusions? Did the city solicit truly independent third-party analyses? If the answer to any or all of these obvious questions is “No,” then why?

If MSFCP Ltd. and its principals had the resources it purported to have, it could have applied these immediately to the project, and/or pledged enough of them as collateral to match the loans. Instead, several major Canadian banks and lending institutions that reviewed MSFCP Ltd.'s request, declined to participate—despite the opportunity to become in the process an “Olympic sponsorship partner.” These lenders' reviews may have been the first scrutiny and due diligence of MSFCP Ltd.'s capacity to complete the project. Ultimately, the developer would only be able to secure \$80 million in pre-construction loans from a Canadian chartered bank.²⁰ Based upon a standard 25 percent to 35 percent equity underwriting required in the private market, MSFCP Ltd. would have

had to have \$275 million to \$385 million of unencumbered equity at the start of the project. It did not.

The amount of security provided for the \$80 million loan received has never been made public and it is not known if its deposit of \$29 million formed part of the security for the loan. What became obvious was that the project, with an estimated cost of \$1.1 billion, was in jeopardy even before groundbreaking. The hand-picked developer of the city, who won the bid without providing detailed financial records, would be largely dependent on its construction contract with the city to build the social housing component, unconventional borrowing and pre-sales to fund the project. By its own reports, the city should have known it was in trouble from the start.

This placed additional pressure on the sale of condominiums by Rennie Marketing. Vancouver has become a condominium town, with pre-sales an integral part of the process. It is these pre-sales, often secured with modest down payments (as little as 5 percent at the time) and the purchaser's promise to complete (or assign/“flip” as many try to do) the sale at the agreed-on purchase price when the project is completed (usually in 18–24 months after the pre-sales), that the developers use to secure their construction financing. Such a process is extremely time-sensitive and subject to both local and increasingly global market conditions. If the product is poorly received, incorrectly priced or deemed to be of poor design or value, units will not sell—even in Vancouver.

The initial pricing model conceived by Rennie Marketing was obviously too high. Any hope that people would pay a premium for “the ultimate Olympic souvenir” was deflated once the prices were released, the size of the units and floor plans known or examined, and especially after the actual finished product was available for view and consumers could see the quality of the finish and the workmanship. This included many of the green features in the units, such as “engineered wood floors” (not hardwood, but laminate on a composite), “eco-friendly kitchens” (small ovens and stove tops that limited cooking options), and other energy and green features that the sales staff were not well-equipped to sell. Locals were not impressed by what they saw. The site was unkempt and the exterior and interior workmanship did not reflect the high sales prices. (Eventually, Rennie's marketing team would be able to secure only 265 presales, all of which were the “least expensive” available. Several of these were bought on speculation. When the project began to falter,

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and especially after the price reductions (on average, by about one-third) on the units following the third re-launch of the project by Rennie, 62 owners took legal action to have their sales nullified. While many were dismayed by the depreciation of their assets and the price reductions they were not given, others cited numerous serious deficiencies in the construction and operation of the units and building. Their claim states that their "units are poorly built and badly designed, and not world-class luxury as advertised."²¹

OLYMPIC VILLAGE ATTENTION TO DETAIL



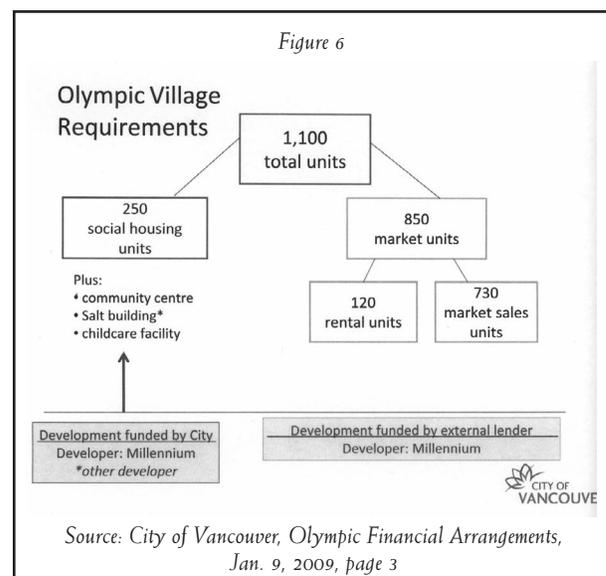
Eventually, MSFCP Ltd. was able to secure a loan of \$750 million from Fortress Investment Group, a controversial hedge fund based in New York City. The terms of the loan were harsh and punitive. In addition to a massive interest premium, Fortress was able to force both the developer and the city to subordinate their interest to Fortress. The city's leadership placed the priorities and interests of a New York hedge fund over the city and its taxpayers, while providing additional guarantees. This was reckless and unprecedented. The immediate consequence was the downgrade of the city's credit rating.²²

How undercapitalized the developer was became clear when the City of Vancouver took over the entire project and its financing. City documents revealed that the developer planned to borrow up to \$750 million from Fortress. It was also being assessed interest rates of 9.5 – 11.5 percent, almost double the current rates in the market. But only \$572 million of this was to be applied to actual

construction costs. The other \$178 million would revert back as interest payments. The developers were therefore paying massive interest on the loan interest and the principal. That the city accepted these terms highlights the project's risk.

FROM BAD TO WORSE: THE CITY OF VANCOUVER ASSUMES FULL RESPONSIBILITY FOR A BILLION DOLLAR CONDO PROJECT

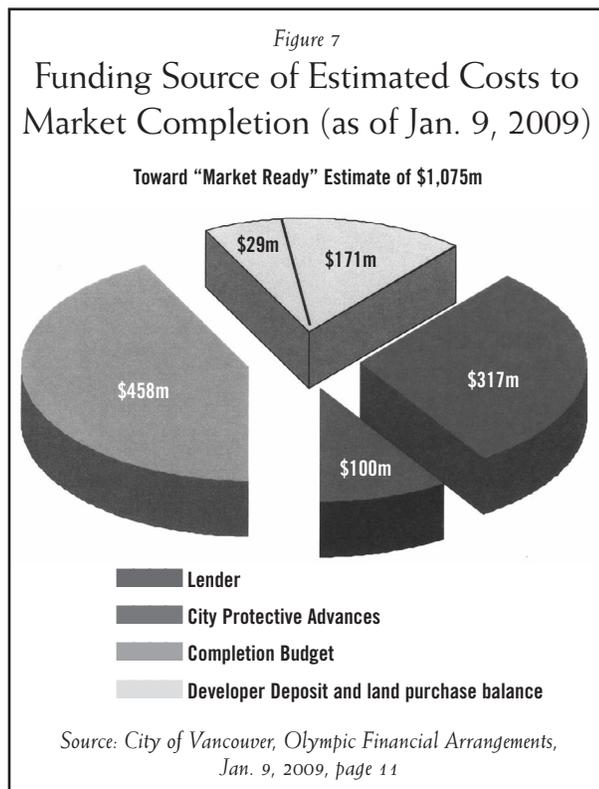
Even with the high interest hedge fund loan, MSFCP Ltd. would not have enough cash or cash flow to complete the project. By its own estimates, it was \$125 million short on the construction of the market component of the project it would own, while the costs of the city's stake in the project were escalating rapidly as well. As the city had also awarded MSFCP Ltd. the construction contract for its social housing component, including paying a significant fee to do so, the developer's problems compounded the city's. This began a series of secret meetings with City Hall officials behind closed doors, where it was agreed that the city would provide a private developer \$100 million in public funding to bring its construction loan current, because in what became the city's Orwellian Newspeak, the developer's loan was "out of balance" and the city's loan to it was a "protective advance." Rather than put the taxpayer and the city at risk, City Council and its staff (which had recommended MSFCP Ltd.) were actually "protecting" the city's asset.



When Fortress Investments faced its own financial crisis following the 2008 global recession, it was increasingly reluctant to continue funding the Olympic Village despite the high interest it received and the city's guarantee. At

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this point, Fortress had provided \$317 million of funding.²³ This required the city to petition the Province on Jan. 17, 2009 to have its City Charter, which restricts and limits the debt and borrowing of the Province's largest and most important city, amended so that it could pay Fortress Investments and become the de facto banker and co-developer of the Olympic Village. In its presentation to the Province, which due to its commitment to the 2010 Winter Olympics had to support the Charter amendment, the city presented the following budget to date for the project.



The city requested from the Province the authority to discharge the Fortress Investment loan of \$317 million from its investments and property endowment fund and borrow up to \$458 million in additional funds to finish the project.²⁴ The city also stated it would spend up to \$450,000 (approximately the price of one of the "less expensive units") in additional staff and consultant fees to oversee this loan.²⁵ From this date forward, the city was no longer the de facto owner of the project—but the full legal owner, fully responsible for the entire development, its upkeep and costs.

THE LONGEST-RUNNING CONDOMINIUM MARKETING CAMPAIGN IN HISTORY: THE RE-BRANDING AND RECEIVERSHIP OF THE OLYMPIC VILLAGE

The future of the Olympic Village remains uncertain, especially with regard to the ultimate financial cost to Vancouver. The project was finally placed into receivership by the city in early 2011. A second opening of the project immediately after the 2010 Olympics documented that the "new" pricing models were a failure.²⁶ Despite multiple re-launchings and marketing campaigns, including renaming the project "The Village at False Creek" (a name few use), and reducing the list price by a third or more, sales remain sluggish. Rennie Marketing remains responsible for the sale of the condominium units. The following table shows Rennie Marketing's "new" 2011 pricing models, after "slashing" one-third to one-half off the original list prices once the project had been placed in receivership:

Figure 8

2011 Pricing Models

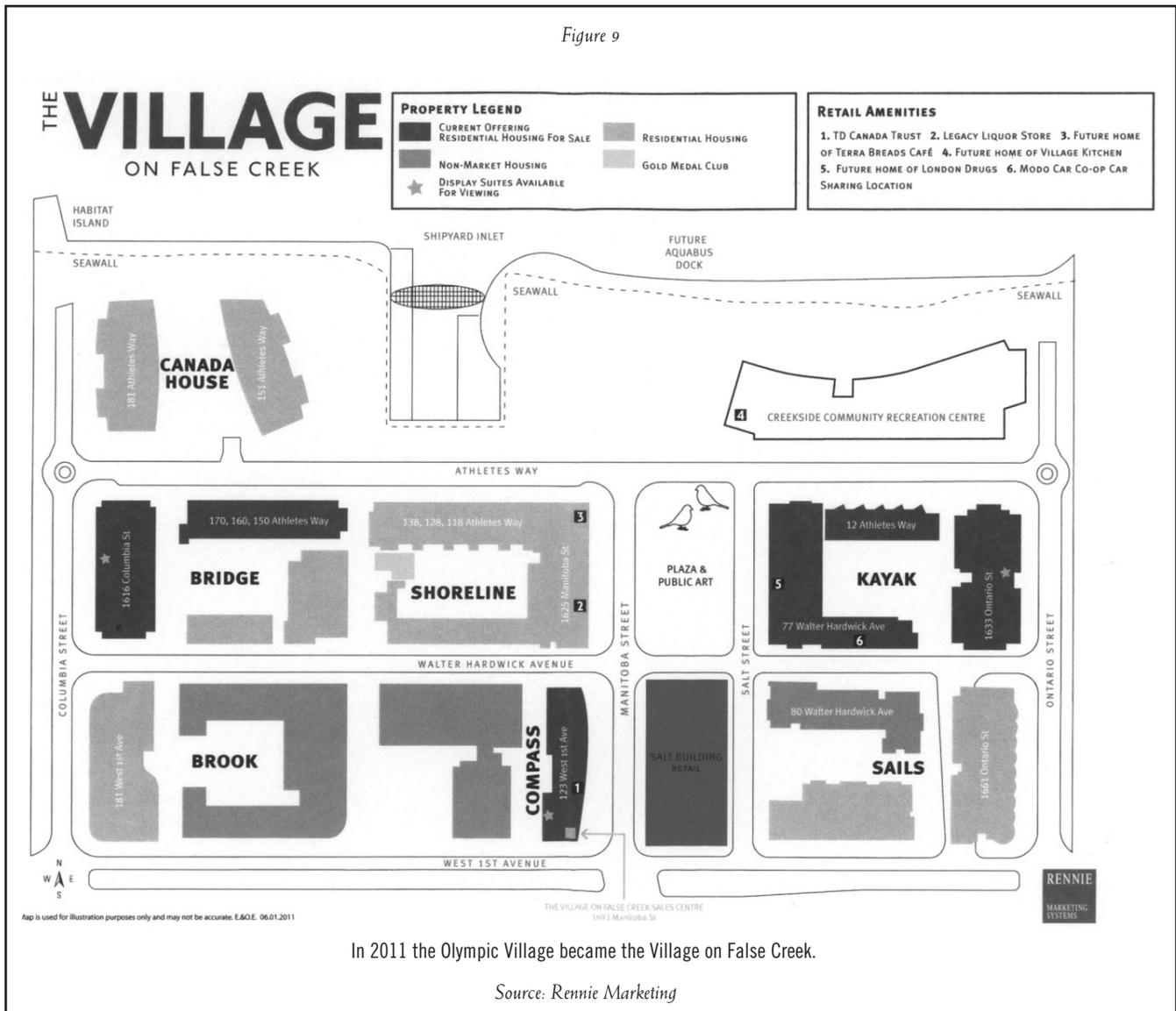
59 units under	\$500,000
61 units	\$500 – 750,000
51 units	\$759 – 1,000,000
59 units	\$1 million plus

Source: KMPG Summary Report to the City of Vancouver and Rennie Marketing.

The re-marketing was to be a phased release so as to not "saturate the market." If these units sold, another block would be released. However, the pricing model was still excessive, with many priced well above \$1 million. Although the price discounts would move some units and create the perception of modest sales momentum, the adjusted prices reinforced the inaccuracy of the initial marketing pro forma. Since the property went into receivership, the city, the Receiver and Rennie Marketing have been very creative with regard to the promotion and "activation" of the Village, even to state that they purposely created a "ghost town" feel to the undersold and occupied Village so that they could subsequently promote a now active and vibrant community once occupancy levels increased.²⁷ But sales remain modest, with many previous purchasers still seeking legal action to rescind their sales. Therefore, the city and Rennie reduced the number of units for sale by 119, classifying these as market rental units, which lowered the bar for a

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Figure 9



“sell out” (yet to be achieved) and referring instead to levels of “occupancy,” not sales at the Village. (This occupancy rate was further enhanced by including the city’s 252 owned and heavily subsidized non-market units, and ensuring these were occupied). The developer’s original pro forma, which the city accepted, was based upon generating sales of more than \$1 billion on 856 market units. Based upon the Receiver’s current report, 544 units have sold, or have “non-conditional” sales agreements. Included in these sales figures would be the reported 264 initial pre-sale units, purchased before 2010. The Receiver’s report is unclear if the 62 owners who filed lawsuits regarding their Olympic Village purchases have settled their claims. Therefore, of the stated 544 units

sold, 264 were pre-sales (which may have been purchased for speculative reasons), and of these units, fully 49 percent of reported sales, 62 commenced legal action against the city. These are the sales results after six years. Rennie Marketing has subsequently stated it will require a further two to three years to sell out the project, which would equate to an average of fewer than 100 units sold over the eight- to nine-year period.

As a result, the city, as the owner and guarantor of the entire project, has been forced to burn through cash to operate and maintain the development, pay for ongoing deficiencies and repairs, and add further losses to the city. Revenue and property tax streams anticipated from the development are likely never to be realized.

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Since the awarding of the Olympic Village development contract to MSFCP Ltd. in 2006, the exclusive marketer for the project has been Bob Rennie and his firm Rennie Marketing Systems. For those not familiar with Vancouver's real estate markets and housing prices, the influence of Rennie on product and pricing and his connection with local and provincial government officials is difficult to understand. Rennie's firm continues to be the exclusive agent for the Olympic Village, despite having more than six years to try to sell out 856 market condominiums. It was Rennie who was instrumental in approving the original pricing models and pro formas that were accepted first by the developer and also by the city politicians and bureaucrats. Rennie remains the face of the project. To date, multiple sales, campaigns and project launches have been implemented including several gimmicky giveaways. (One of the incentives used was to receive a year of complimentary Subway sandwiches as part of a \$5,000 amenity package.) These campaigns have been weak and disjointed. Even with a full name change and "re-branding" of the project to "Village at False Creek," the project moved into receivership shortly after the 2010 Olympic Games. Many in the real estate industry believe that the project should have been entrusted to new marketers or have been declared an open listing. Criticisms of his firm's efforts have become more pronounced.²⁸

In the beginning of the project, however, when optimism abounded, Rennie and his marketing team spent enormous sums of the developer's and then the taxpayers' money on elaborate brochures, site open houses, parties, and especially newspaper advertisements. His firm is generally considered to be the largest buyer of advertising space in the city's local newspapers which, in turn, have been far milder in their criticism of the entire project and Rennie than has national coverage. In the original Millennium Waters (the developer's name for the Olympic Village) brochure, the green and sustainability component of the project was prominently featured, all meant to answer the question posed in the brochure itself: "How did a former shipyard, an industrial wasteland owned by the City of Vancouver, evolve into a sustainable waterfront community? The architects envisioned what you see in today's plans, never letting go of their responsibility not only to Vancouver, but also to Canadians and the world."²⁹ From the start, the project highlighted both its unique approach to urbanism and how it would combine and merge social housing with extremely expen-

sive market units, with these diverse socioeconomic demographics living together in harmony, and setting a new example of urbanism for the world.

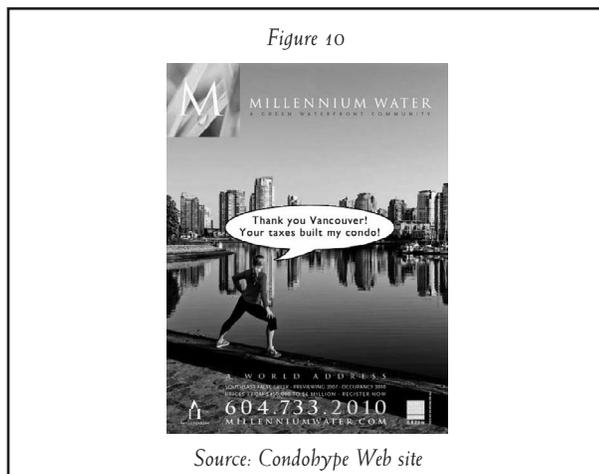
Because of the financial costs, the city will be forced to reassess its social housing commitment in order to free up more of these units to be sold to reduce the eventual loss to the city. At a cost of at least \$436,500 per unit, not including land value, the 252 social housing units are likely the most expensive such social housing units ever conceived or built. The very merits of developing such expensive social housing, and the principle behind granting such accommodations in such a costly and exclusive development, were never properly analyzed nor is there evidence of a risk assessment and review of the ongoing legal liabilities and costs to subsidize and maintain these social housing units.

NOT JUST ASPIRATIONAL LOSSES: ASSESSING THE TAXPAYERS' EXPENSES AND LOSSES

The City of Vancouver's total overall investment in the Olympic Village development and the SEFC lands infrastructure, and its sales and operational losses, grow each month. They will be in the hundreds of millions of dollars. The same mayor and City Council that won an election largely because of the incompetence of their predecessors' claiming possible losses to the city of up to a billion dollars, now states that the Olympic Village losses will be far less than assumed, only approximately \$50 million, because the \$200 million purchase price, which won the bid in the first place, was "an aspirational price" and the city has now written off this debt. When the project was moved into receivership by the city, it was disclosed that the developer was paying the city \$107,081.00 interest-only on a daily basis on the outstanding construction loan of approximately \$560,839,389.04, and a further \$39,000 daily interest accruing on the land loan. The developer was indebted to the city for \$146,081.00 per day in interest. Literally one lower-priced condominium would have to be sold every three days just to pay one day's interest.³⁰ The city's original book value was approximately \$27 million and this has been recorded as the actual land value. The hundreds of millions of dollars the city paid for environmental remediation, infrastructures, and the city's own facilities including a state-of-the-art community center—all to enhance the village site—is similarly now downplayed. This has been done to try to improve the optics of the project and to artificially reduce the city's eventual final loss on the Olympic Village. If the opportu-

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nity costs loss and ongoing capital and operating costs and subsidies are further incorporated, the loss multiplies.³¹ The possibility remains that actual and ongoing losses and expenditures from this project combined with the opportunity cost losses will equate to \$1 billion—all for a 1,108-unit condominium project.



The four successive City Councils, of varying political persuasions, that were responsible for the Olympic Village file and its consequences, saw a once-in-a-lifetime opportunity to be associated with both an Olympics and cutting-edge planning and green initiatives which would bring praise for the city and its leadership. Their lack of understanding and governance on such a complicated project, and their failure to question and hold senior staff accountable for their decision-making and clear favoritism is, at best, disturbing. Hard questions and honest answers are warranted.

Many of the local development, construction and real estate industries also were compliant in this undertaking because of the money and future opportunities they expected would follow the Olympics. With government assuming most of the risk, and even acting as the developer's lender and mitigating the market forces that are supposed to curtail or punish poor planning and execution, these mistakes and costs were not paid by the developer, but instead transferred to and paid for by the taxpayer. The conflict of interest between politicians and developers and the real estate industry in Vancouver is now toxic.

As the chronology shows, the Olympic Village Plan as submitted in 2006 is based on years of "smart growth" and green agendas with Vancouver's unique real estate culture. The project was an impractical and unproven

hybrid of social and market housing, untested green initiatives, and an unrealistic push to achieve maximum LEED certification standards without proper cost and performance analyses, or consideration of the wet climate of the region.

Why city officials and successive City Councils kept expanding the Olympic Village project when the developer was quickly shown not to be capable of completing the project with its own resources has yet to be sufficiently disclosed or explained. Nor has a simple question been answered: How did Vancouver, which received a \$30 million payment from the 2010 Olympic Committee to provide housing for less than a month for Winter Olympians, agree to become responsible for a \$1.1 billion private development? How could such a scheme ever have been considered to be in the best interest of the taxpayer, private enterprise, and ultimately the green and sustainable requirements of the project itself?

The LEED brand has been harmed by the Vancouver Olympic Village experience. The extensive list of planning and sustainability and green awards won by this development, many before it was built and most before occupancy, raises questions about how LEED certification is granted.

CONCLUSIONS AND RECOMMENDATIONS

In 2010, Vancouver and Canada proudly hosted a successful Winter Olympics. The costs to stage these events are always expensive—and controversial. In the case of the Vancouver Games, it is the mixed-use condominium development which temporarily housed the athletes that has generated the most controversy. No matter what eventually becomes of this project, nor how it has been promoted or defended by those responsible for it (and who stood to benefit from it the most), the project has failed based on the guidelines used to promote it. What was and has been promised has not been delivered. The project has been a planning, political and real estate failure.

There are numerous reasons why the Olympic Village failed. The story is still unfolding, as are the direct and indirect costs to the taxpayers in Vancouver. In the interim, the 2010 Vancouver Olympic Village can serve as a warning to planners, urbanists, politicians, developers and members of the public about the pitfalls of simultaneously micro- and macro-managing complicated and technical mega projects. The Vancouver experience underscores the importance of skill, discipline and

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expertise that is forged by facing the consequences of the open market and putting one's own resources and reputation on the line. The following are some of the major lessons learned from the Vancouver experience:

1. Politicians Must Act as the Public Trustee First, its Advocate Second

The last four Vancouver City Councils failed individually and collectively to comprehend what unfolded at the Olympic Village. Rather than be prudent stewards of public funds and the city's good name, they followed the lead of some forceful senior bureaucrats, lobbyists and some in the development and real estate communities who were also their political supporters. The Olympic Village project was very technical and complicated. While most politicians will not have the necessary knowledge, expertise or experience to micro-manage such projects, they are entrusted with the responsibility to ask hard questions and not vote on motions or funding questions that they do not fully understand and that are prone to risk. They should have the strength to challenge and confront their own senior staff and political supporters. There should be no collusion or favoritism. When the Olympic Village file was moved increasingly to closed door meetings, the process should have been halted.

2. City Planners and Bureaucrats must be Professional and Objective

Public servants must remain fair and open-minded and avoid promoting their own agendas. They must be prudent and wise professionals. Most are. While those who worked on the Olympic Village file believe they acted accordingly, their decision making, and certainly the results, have been abysmal. A consistent pattern of questionable actions and poor decisions were first made, then defended, and therefore, compounded. Many of these decisions and actions were ideologically driven and based upon a "smart growth" and green agenda. Many planners saw this file as a once-in-a-lifetime opportunity to enhance their own reputations and marketability. "The city-led development became an exercise in "vanity building."³²

3. Civic Governments Must Operate Openly, Fairly and Prudently

Civic politicians and their bureaucrats control land use policies and decisions. Money is generated by their decisions. They therefore have the responsibility to be transparent and always accountable. Potential conflicts of interest abound as does the possibility of making incomplete or incorrect decisions because of outside pressures including ideology, incomplete due diligence, favoritism

and cronyism. When a city engages in "deal making" behind closed doors, the benefits granted someone are typically at the expense of others. The windfall benefits to the Vancouver Olympic Village developer are stunning. Now subsequent losses on this project are partially paid through higher housing prices and property taxes, development cost charges and fees. These projects distort open market conditions.

4. Beware of Public-Private Partnerships and Their Hybrids

The Olympic Village is a classic example of what can occur when a private venture is supported by, or merged with, the public interest. The benefits to the taxpayer may often be overstated, while the risks are often downplayed. Often little or no defensible analysis and independent cost benefit analysis are offered to support such decisions. The benefits to the private entity, usually by way of funding, amenities, guaranteed rates of return and promotion will almost always exceed the benefits to a government. Why? The private entity will often leverage its expertise or political connections to extract more and more. These relationships also distort free markets and the discipline that results from having a private firm bearing the total risk of a project—and the funding thereof. These risks and costs are arbitrarily transferred to the taxpayer. And if these projects start to fail, the politicians and bureaucrats who approved and promoted the project must then become advocates and defenders of the failing project. To do otherwise would be an admission of their own failings and culpability. And if a project does fail or underperform other defenses are offered. In the case of the Vancouver Olympic Village, we "were showcasing our city" and "honouring our Olympic commitment," were the city's mantras as losses mounted.

5. Politicians and Governments Should Engage from the Start Expert Outside and Independent Advisors and Listen to Them

The Olympic Village record to date clearly shows that the city did not have the expertise for a project this size. Even a cursory analysis of the decisions and rationale for this project by the bureaucrats and the consultants who were engaged show that most could not see, or chose to avoid the obvious pitfalls this project would face. If some sounded warnings, why were they not heeded? Had totally independent expertise been engaged from the start of this project, it would not have passed the "back of the envelope" analysis—it was this obvious. This is perhaps why such outside advice is either not solicited or is

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ignored. Some politicians and bureaucrats do not want their dreams and self-importance questioned, nor are some comfortable with experts scrutinizing their actions). The city chose to dismiss their chief financial officer rather than listen to reason.

6. The Development and Real Estate Industries Should Insist on a Level Playing Field with Open Competition and No Favoritism.

That many in Vancouver's development and real estate community defended the city and the Olympic Village developers publicly, despite their private criticism, is telling. Rather than publicly distance themselves from this failure, the parties deemed it more important and expedient to defend the undertaking than state anything that might possibly cool Vancouver's hyperactive real estate market, and their own projects or zoning applications. At the height of the scandal, a leading developer wrote in the local press that if Vancouver forced the Olympic Village developer off the project, it would damage "the project further and dredge up so much toxic mud that City Hall would be shaking right off its murky foundations."³³ What does this tell us about the state of real estate in Vancouver? More important, what happened behind closed doors at City Hall?

7. LEED Standards and Its Certification Process Must be Reassessed

Before the Olympic Village was even ready for occupancy, it was proclaimed "the greenest neighborhood on earth." The city gave the project this title. Any certification system that permits self-assessment and reporting is subjective and open to claims of self-serving. Without third-party due diligence and actual performance standards being monitored over time and verified, LEED certification is as much a marketing and promotional standard as an ecological one. Green building technologies are evolving and not always applicable from one ecosystem and climate to the next. The United States and Canadian Green Building Councils are only twelve and nine years old, respectively. Their performance and best-practice databanks are evolving. It is the opinion of the author that a project should have to undergo, say, five years of continuous operations to verify the claims and performance objectives submitted by the applicant before actual LEED certification is granted. If this had been the case, the Vancouver Olympic Village would not have received the LEED certifications nor the awards it did, which were used to partially justify the cost of the units for sale and the city's investment in two developments and subsequent losses.

8. The Press and Media Must Remain Objective, Investigate, Verify and Report

The Olympic Village story has been unfolding for more than nine years. The overall coverage by the media, with some exceptions, has not been good. Compromised either by a lack of investigative resources, a willingness to bluntly report facts or a reluctance to criticize some of their major advertisers, the press coverage on this project has been tardy or has reflected only the agendas of the City of Vancouver, the developer, the marketer and the public relation teams. This has increased the exposure of blogs and the alternative press. The traditional media were certainly not the taxpayers' watchdog on this development.

9. Governments and Politicians Must Know When to Cut Their Losses.

When this project was conceived, some proponents may have believed that the Olympic Village would be the most sustainable and greenest neighbourhood on Earth, and that Vancouver really was "Futureville." Now the current City Council has adopted, by necessity, a committee to address Vancouver's housing affordability crisis by establishing a "blue ribbon task force to look into the underlying issues of housing affordability...which are threatening to make Vancouver unlivable."³⁴ The known record shows that the Olympic Village project was destined to underachieve and fail its mandate before the project began and the financial and reputational losses mounted. Yet it proceeded. If elected and non-elected government leaders make wrong decisions, then self-preservation is secondary to their responsibility to the taxpayer. They must mitigate the damages. This has not occurred to date on this project.

What is not fully comprehended by many still, including the city, is that the Olympic Village project continues to burn through cash. For as long as the city owns this asset, and/or is responsible for its upkeep, Vancouver loses millions of dollars in operational and other resources to maintain the project. All professional fees, holding costs, repairs and maintenance and deficiencies are at the full cost and responsibility of the city.³⁵ These are in addition to the growing financial losses.

These costs and losses are ongoing and significant. The city is reporting gross sales figures from the project, but not fully accounting for, or deducting from these figures the expenses and disbursements. Literally, a significant number of the condominium units' sale proceeds are funding the Village's day-to-day operations, not debt reduction. There is no possibility of breaking even. For

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any residential or corporate tenant with a grievance or complaint, or request for reimbursement, the party accountable to them is the city. And now the Provincial government recently enacted Depreciation Report legislation, which stipulates that all condominium developments must assess their buildings for deficiencies, disclose these and ensure capital reserves are in place sufficient to support replacement and upkeep. The financial obligations of the city are further increased as are its challenges to market and sell the units. As the owner of the project, the city is the guarantor of its integrity. Therefore, the prudent course of action would be for the city to essentially suspend and cap its ongoing financial and operational obligations by selling off the entire project in as orderly a fashion as possible. There is no possibility that any potential lost sales revenue in the future makes a prudent case to hold this asset. The paper profits were long ago lost and the city's objective should be to accept its losses and move on. To properly assess the best course of action requires full and complete disclosure of the files and careful assessment of the true costs and losses to the city. An accurate risk and strategic cost benefit analysis (late in the game, but still necessary) should be conducted by independent experts and a workout plan implemented. The city's liabilities must be mitigated.

Without a full forensic real estate audit of the entire project, it is likely that many key answers will not be forthcoming. In addition, a full real estate audit is the only way to fully quantify this project's losses. Cities and their taxpayers either learn from these mistakes, or inevitably they will be repeated on some form and scale.

EPILOGUE

Today if one stands in the centre of Vancouver's Olympic Village and looks west, one can see atop a building a neon sign with the name of the occupant, a marketing firm: "Vision Critical." To the east of this sign, on a building owned by the project's sales agent since its inception, Rennie Marketing, one can simultaneously view another neon sign that states "Everything is Going to be Alright."

There was no true vision on this project and as a full and direct consequence, everything is not alright. In the Olympic year of 2010, when this project was to have been sold out and heralded around the world, Vancouver collected \$605.6 million in property taxes from their residents and businesses, fully 63 percent of the year's \$959.8 budget. That a city would gamble the equivalent of

its annual budget and lose in the process at least all of the property taxes its hardworking citizens and businesses paid for one year (maybe more) deserves some very significant explanations and clear accountability.³⁶ What occurred and continues to unfold at the site known as Vancouver's Olympic Village was, sadly, not a gold medal performance. ■

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