



ADMINISTRATIVE REPORT

Report Date: October 22, 2019
Contact: Andrew Newman
Contact No.: 604.673.8105
RTS No.: 12760
VanRIMS No.: 08-2000-20
Meeting Date: November 6, 2019

TO: Standing Committee on City Finance and Services

FROM: Director of Real Estate Services, in consultation with the Director of Legal Services and the General Manager of Arts, Culture and Community Services

SUBJECT: Approval of Expropriation and Advance Payment for 159 East Hastings Street and 160 East Hastings Street

RECOMMENDATION

- A. THAT Council, as the approving authority under the *Expropriation Act*, R.S.B.C. 1996, c. 125 (the "Act"), approve the expropriation of the lands located at 159 East Hastings Street, as shown in Appendix A, legally described as:

Parcel Identifier Numbers 015-686-531, 015-685-926 & 015-685-951
The West 0.5 Feet Of Lot 13, Lot 14 & Lot 15, Block 9, District Lot 196, Plan 184 (the "Balmoral")

by passing the resolution set out in Appendix B to this report.

- B. THAT, subject to the passing of the resolution set out in Appendix B to this report, Council authorize the Director of Real Estate Services, on behalf of the City as the expropriating authority, to pay One Dollar (\$1.00) to the registered owner of the Balmoral as the advance payment made under the Act.
- C. THAT, subject to the passing of the resolution set out in Appendix B to this report, Council approve funding of \$350,000 to secure the Balmoral through additional building hardware, security systems, on-site and mobile patrols.
- D. THAT Council, as the approving authority under the Act, approve the expropriation of the lands located at 160 East Hastings Street, as shown in Appendix A, legally described as:

Parcel Identifier Numbers 013-263-072 & 013-263-111

Lots 39 & 40, Block 12 District Lot 196 Plan 184 (the “Regent”, which together with the Balmoral are herein defined as the “Hotel Properties”)

by passing the resolution set out in Appendix C to this report.

- E. THAT, subject to the passing of the resolution set out in Appendix C to this report, Council authorize the Director of Real Estate Services, on behalf of the City as the expropriating authority, to pay One Dollar (\$1.00) to the registered owner of the Regent and to pay One Thousand Dollars (\$1,000) to the holder of an unregistered lease interest with respect to the Regent Pub (the “Regent Pub Lease”), as the advance payments made under the Act.
- F. THAT, subject to the passing of the resolution set out in Appendix C to this report, Council approve funding of \$350,000 to secure the Regent through additional building hardware, security systems, on-site and mobile patrols.
- G. THAT the source of funds for the advance payments described in Recommendations B and E and the securing of the Hotel Properties as described in Recommendations C and F be the 2018 Capital Budget for Non-Market Rental (Social Housing & other).

CONSIDERATION

Council could consider the following proposals in place of staff’s recommendations:

- H. THAT Council, as approving authority under the Act, abandon the expropriation of the Balmoral and direct staff to file a notice of abandonment in the Land Title Office and affect all other legal requirements under the Act to abandon the expropriation of the Balmoral.
- I. THAT Council, as approving authority under the Act, abandon the expropriation of the Regent and direct staff to file a notice of abandonment in the Land Title Office and affect all other legal requirements under the Act to abandon the expropriation of the Regent.

REPORT SUMMARY

The purpose of this report is to request Council to exercise its authority, as approving authority under the Act, to approve the expropriation of the Hotel Properties, and to authorize the Director of Real Estate Services, on behalf of the City, as expropriation authority under the Act, to pay One Dollar (\$1.00) to the registered owner of the Regent, One Dollar (\$1.00) to the registered owner of the Balmoral, and One Thousand Dollars (\$1,000.00) to the holder of the Regent Pub Lease as the advance payments made under the Act for the expropriation of the Hotel Properties, and to approve funding of \$350,000 for each of the Hotel Properties to secure them through additional building hardware, security systems, on-site and mobile patrols.

On July 24, 2018, Council (In Camera) authorized the City, as the expropriating authority under the Act, to commence expropriation proceedings with respect to the Hotel Properties. The stated

purpose for the expropriations was “the provision of housing accommodation and the improvement or rehabilitation of areas which have become blighted or substandard areas”.

On August 24, 2018, the owners of the Hotel Properties requested an inquiry as is permitted under the Act. On April 1, 2019, the owners withdrew their request for inquiry. This report now seeks Council’s approval of the expropriation of the Hotel Properties and authorization to make the advance payments to the owners of the Hotel Properties.

The recommendations of this report provide Council with the option to approve expropriation of just the Balmoral, just the Regent, or both Hotel Properties.

COUNCIL AUTHORITY/PREVIOUS DECISIONS

In June 2017, the Chief Building Officer ordered the closure and removal of occupancy permits for the Balmoral due to building life-safety and code deficiencies.

On June 6, 2018 (RTS 12646), Council authorized the GM of REFM to enter into negotiations for the purchase of the Hotel Properties and if unsuccessful, to report back to Council on options for expropriating the Hotel Properties.

On June 29, 2018, the Chief Building Officer ordered the closure and removal of occupancy permits for the Regent due to building life-safety and code deficiencies.

On July 24, 2018 (RTS 12710), Council authorized the City as the expropriating authority under the Act to commence expropriation proceedings pursuant to the Act in order to acquire the Hotel Properties.

Section 532 of the *Vancouver Charter* provides that if, in the exercise of any of its powers of acquiring real property, the City fails to come to an agreement with its owner as to the terms of acquisition, the City may, by by-law or resolution of the Council, expropriate such real property.

CITY MANAGER'S/GENERAL MANAGER'S COMMENTS

The City Manager recommends approval of the foregoing.

REPORT

Background/Context

The Balmoral was determined to be unsafe to occupy and was evacuated in June 2017, with more than 150 tenants being rehoused through a partnership between the Province of BC and the City. Subsequently, the Regent was also determined to be unsafe to occupy and was vacated and closed effective June 29, 2018. Since then, the owners have not made any substantial repairs to the Hotel Properties and the rooms remain closed.

The City made offers to purchase the Hotel Properties in July 2018, but was unsuccessful in its attempts to negotiate an outright purchase of the Hotel Properties. Accordingly, the City moved to initiate expropriation proceedings.

On July 24, 2018, Council authorized the City, as expropriating authority, to commence expropriation proceedings to acquire the Hotel Properties for the purpose of providing housing accommodation and improving or rehabilitating areas which have become blighted or substandard areas.

To this end, the required Expropriation Notices were filed in the Land Title Office and were served on all owners as defined in the Act (which in this case includes the registered owners of the Hotel Properties and various chargeholders) as well as the approving authority (namely, Vancouver City Council). The required signage setting out a summary of each Expropriation Notice was posted on each of the Hotel Properties. The owners requested an inquiry as they are entitled to under the Act and later withdrew that request.

Payment to Owners

The appraisal of the Balmoral, valued as of October 1, 2019 (a summary of which is attached as Appendix D), estimates the market value of the Balmoral as One Dollar (\$1.00), which amount is to be paid to the registered owner of the Balmoral as an advance payment.

The appraisal of the Regent, valued as of October 1, 2019 (a summary of which is attached as Appendix E), estimates the market value of the Regent as One Dollar (\$1.00), which amount is to be paid to the registered owner of the Regent as an advance payment.

The appraisal of the Regent Pub Lease, valued as of October 1, 2019 (a summary of which is attached as Appendix F), estimates the market value of the Regent Pub Lease as One Thousand Dollars (\$1,000.00), which amount is to be paid to the holder of the Regent Pub Lease as an advance payment.

The One Dollar (\$1.00) valuation for each of the Hotel Properties is the result of the City's appraiser considering a renovation scope and cost estimate provided by multiple sub-consultants, as summarized in the summary of facts document attached as Appendices D and E.

Under the *Expropriation Act*, the owners will have 1 year from the date of the advance payment to bring a claim for greater compensation.

Financial

The Director of Real Estate Services is of the opinion that the compensation to be provided as the advance payment of One Dollar (\$1.00) for the Balmoral, the advance payment of One Dollar (\$1.00) for the Regent, and the advance payment of One Thousand Dollars (\$1,000.00) for the Regent Pub Lease is reasonable and is within the parameters set by the Act. The source of funds for these advance payments, and the \$700,000 required for securing the Hotel Properties for a period of up to three years (\$350,000 each for the Balmoral and Regent) is the 2018 Capital Budget for Non market Rental (Social Housing & other). The budget was approved in July 2018 for the expropriation of these Hotel Properties.

The typical funding model for social housing projects entails leasing City land (and building where applicable) to senior governments and/or non-profit housing partners at below market or nominal rent for 60 years or longer. Partners are responsible for any upfront capital work, ongoing operation and maintenance, as well as funding and financing to achieve the prescribed affordability level over the lease term.

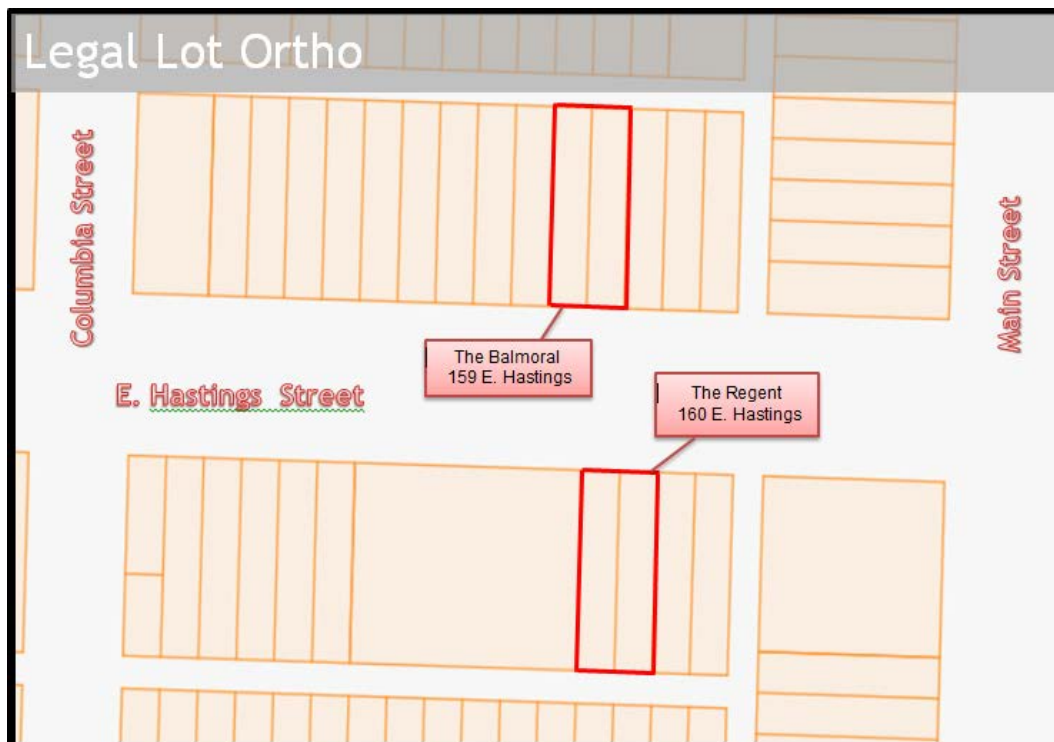
Consistent with Council policies, all social housing projects are expected to be self-sustaining over the life of the project, and do not require further operating subsidies, property tax exemptions, or financial guarantees from the City.

Should Council approve the expropriation of these Hotel Properties, staff intend to work with BC Housing on i) the renovation of these buildings to turn them into self-contained social housing units, and ii) the future operating model and funding to achieve the deepest level of affordability possible.

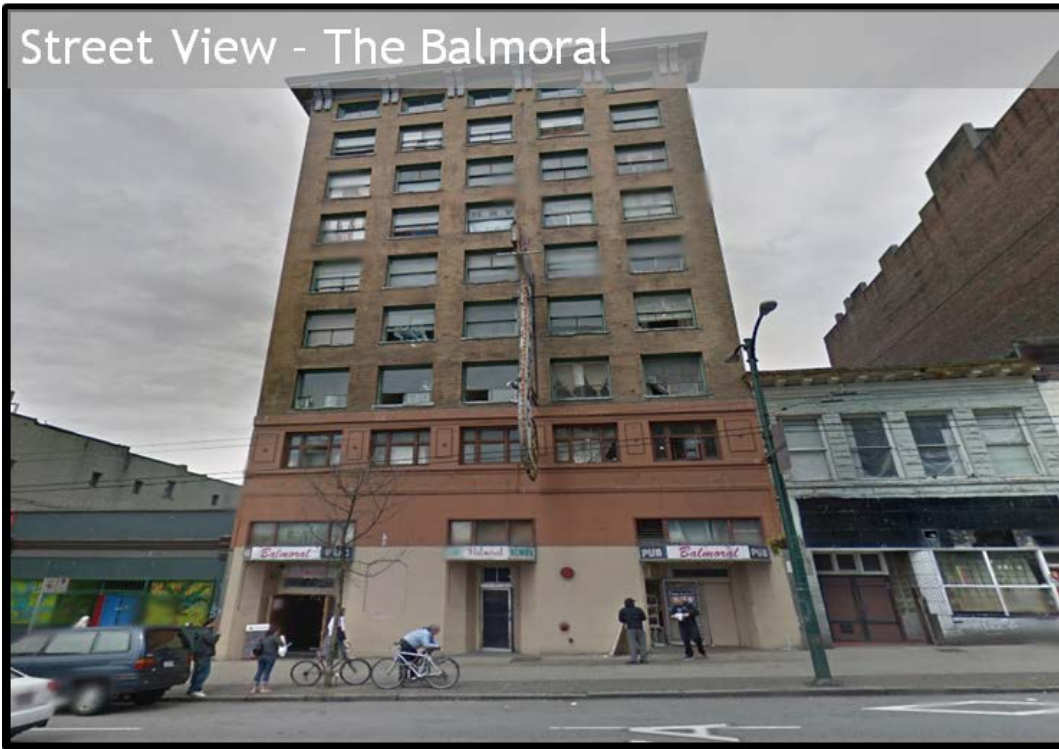
CONCLUSION

The Director of Real Estate Services in consultation with the Director of Legal Services and the General Manager of Arts, Culture and Community Services, recommends that Council, as approving authority, approve the expropriation of the Hotel Properties and pay \$1.00 to the owner of the Balmoral, \$1.00 to the owner of the Regent, and \$1,000.00 to the holder of the Regent Pub Lease as the advance payments made under the Act for the expropriation of the Hotel Properties.

* * * * *



Street View - The Balmoral



Street View - The Regent



EXPROPRIATION OF LAND
RESOLUTION OF THE VANCOUVER CITY COUNCIL

MOVED by Councillor _____

SECONDED by Councillor _____

WHEREAS:

- A. The City of Vancouver requires the land located at 159 E. Hastings Street and legally described as:

Parcel Identifier Numbers 015-686-531, 015-685-926 & 015-685-951
The West 0.5 Feet of Lot 13, Lot 14, and Lot 15, Block 9 District Lot 196 Plan
184 (the “Balmoral”)

for the provision of housing accommodation and the improvement or rehabilitation of areas which have become blighted or substandard areas;

- B. In the exercise of its powers of acquiring real property for these purposes, the City has failed to come to an agreement with the owner of the Balmoral;
- C. The *Vancouver Charter* provides that if, in the exercise of any of its powers of acquiring real property, the City fails to come to an agreement with its owner as to the terms of acquisition, the City may, by by-law or resolution of its Council, expropriate such real property;
- D. The *Expropriation Act*, R.S.B.C. 1996, C. 125 provides that an “expropriating authority” means a person empowered under an enactment to expropriate land;
- E. On July 24, 2018, Vancouver City Council passed a resolution authorizing the City as expropriating authority to commence expropriation proceedings under the *Expropriation Act* to acquire the Balmoral; and
- F. Under the *Expropriation Act*, the “approving authority” for an expropriation under the *Vancouver Charter* is the Vancouver City Council, unless the Lieutenant Governor in Council has designated the Minister of Municipal Affairs as the approving authority for the purpose of expropriations under the *Vancouver Charter* or any particular expropriation under the *Vancouver Charter*, which designation has not been made;

BE IT RESOLVED that the Vancouver City Council, as the approving authority under the *Expropriation Act*:

1. approves the expropriation of the Balmoral;
2. authorizes the Director of Legal Services to:

- a. execute on behalf of the Vancouver City Council and deliver to each owner (as defined in the *Expropriation Act*) a Certificate of Approval of Expropriation in Form 5 under Section 18(2) of the *Expropriation Act* evidencing such approval;
- b. make the advance payment or payments as required by Section 20(1)(d) of the *Expropriation Act*, execute the Notice of Advance Payment in Form 8, and deliver to each owner a Notice of Advance Payment along with copies of the appraisal reports on which each advance payment is made; and
- c. execute a Vesting Notice in Form 9 under Section 23 of the *Expropriation Act* and file or cause to be filed the Vesting Notice in the Land Title Office.

EXPROPRIATION OF LAND
RESOLUTION OF THE VANCOUVER CITY COUNCIL

MOVED by Councillor _____

SECONDED by Councillor _____

WHEREAS:

- A. The City of Vancouver requires the land located at 160 E. Hastings Street and legally described as:

Parcel Identifier Numbers 013-263-072 & 013-263-111
Lots 39 and 40 Block 12 District Lot 196 Plan 184 (the “Regent”)

for the provision of housing accommodation and the improvement or rehabilitation of areas which have become blighted or substandard areas;

- B. In the exercise of its powers of acquiring real property for these purposes, the City has failed to come to an agreement with the owner of the Regent;
- C. The *Vancouver Charter* provides that if, in the exercise of any of its powers of acquiring real property, the City fails to come to an agreement with its owner as to the terms of acquisition, the City may, by by-law or resolution of its Council, expropriate such real property;
- D. The *Expropriation Act*, R.S.B.C. 1996, C. 125 provides that an “expropriating authority” means a person empowered under an enactment to expropriate land;
- E. On July 24, 2018, Vancouver City Council passed a resolution authorizing the City as expropriating authority to commence expropriation proceedings under the *Expropriation Act* to acquire the Regent; and
- F. Under the *Expropriation Act*, the “approving authority” for an expropriation under the *Vancouver Charter* is the Vancouver City Council, unless the Lieutenant Governor in Council has designated the Minister of Municipal Affairs as the approving authority for the purpose of expropriations under the *Vancouver Charter* or any particular expropriation under the *Vancouver Charter*, which designation has not been made;

BE IT RESOLVED that the Vancouver City Council, as the approving authority under the *Expropriation Act*:

1. approves the expropriation of the Regent; and
2. authorizes the Director of Legal Services to:

- a. execute on behalf of the Vancouver City Council and deliver to each owner (as defined in the *Expropriation Act*) a Certificate of Approval of Expropriation in Form 5 under Section 18(2) of the *Expropriation Act* evidencing such approval;
- b. make the advance payment or payments as required by Section 20(1)(d) of the *Expropriation Act*, execute the Notice of Advance Payment in Form 8, deliver to each owner a Notice of Advance Payment along with copies of the appraisal reports on which each advance payment is made, and make any court applications under the *Expropriation Act* necessary to complete the advance payment; and
- c. execute a Vesting Notice in Form 9 under Section 23 of the *Expropriation Act* and file or cause to be filed the Vesting Notice in the Land Title Office.

Balmoral Appraisal – Executive Summary

October 28, 2019

Reference Number: 14171C-1117

Young Anderson
 Barristers and Solicitors
 1616-808 Nelson Street
 Box 12147 – Nelson Square
 Vancouver, BC V6Z 2H2

Attention: Mr. Sukhbir Manhas

Re: **Appraisal of a Commercial/Rooming House Property - "Balmoral Hotel"**
Located at 159 East Hastings Street, Vancouver, BC

Further to your request, we have prepared an appraisal of the referenced property estimating the current market value of the fee simple interest. This appraisal was prepared as an update to the original report (reference #14171-1117) for the City of Vancouver "the City", with an effective date of March 9, 2018 and our previous report (reference #14171A-1117) for Young Anderson with an effective date of February 25, 2019. The estimated market value of the subject property as of February 25, 2019 was \$1.00.

The subject property comprises a ±6,161-square-foot site, located on the north side of East Hastings Street between Columbia and Main Streets. The site is zoned DEOD (Downtown Eastside-Oppenheimer District) and situated within Sub-area 1 of the DEOD Development Plan. The site is improved with a ±107-year-old, nine-storey plus basement building that includes ground floor commercial space previously occupied by the Balmoral Pub, and 171 single-room occupancy (SRO) licensed units on the second to ninth floors.

As of the effective date of valuation, the entire building was vacant due to health and safety concerns and a large number of outstanding work orders issued by the City, which resulted in the building being deemed unsafe to occupy. The building was vacated on June 12, 2017. As a "Do Not Occupy" order was issued on June 2, 2017 by the City until completion of the outstanding work orders, an accurate estimate of restoration costs was an essential part of this appraisal.

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 Alasdair Gordon Dipl. Surv.
 Megan McFarlane B.Comm. AACI
 Shannon Horne BGS, DULE AACI
 Ghalib Tung BMOS
 Lauren Czuba

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Due to the complexity of estimating the costs involved in restoring the Balmoral Hotel to a condition that would allow it to be legally occupied, we contacted BTY Group, who has significant experience with costing the renovations of Single Room Occupancy (SRO) hotels. Following an inspection of the building and discussions with BTY, they were not able to provide a written report and estimate of renovation costs without properly defining the required scope of work. This type of analysis was also beyond our expertise.

We next contacted GHL Consultants Ltd., a building code consultant company. However, as GHL had already provided advice (although apparently not formally engaged) to Spratt Emanuel Engineering Ltd., who was working for the subject property's current owner, we considered it appropriate to engage the services of another consultant.

At this time we asked BTY to suggest another consultant with expertise in this type of work with downtown Eastside SRO properties. They recommended Merrick Architecture be engaged. Merrick indicated at the outset that due to the complexity of this type of work, it would be necessary to engage the services of the following consultants.

1. Architecture and Heritage prepared by Merrick Architecture,
2. Building Code prepared by McAuley Thorson,
3. Structural Engineering prepared by Bush Bohlman and Partners,
4. Mechanical Engineering prepared by MCW,
5. Electrical Engineering prepared by WSP,
6. Building Envelope prepared by Morrison Hershfield,
7. Hazardous Material Abatement prepared by Pinchin West and,
8. Environmental prepared by Hemmera.
9. To determine the building's required renovation costs we have relied upon the cost management report (Balmoral Hotel Regeneration Schematic Design Class C Estimate) prepared by BTY Group.

Prior to reporting these findings back to our client, we discussed the need to assemble such a large team with others in the marketplace, as the consultant costs would be significant. From those investigations it quickly became apparent that the services of the entire recommended consulting team were essential for a reliable analysis to be undertaken. When purchasers of similar complex properties in a poor state of repair undertake due diligence, a similarly composed team is generally assembled. Each member of the team brings the expertise essential to evaluating the obligations that the SRO hotel will present for it to be restored and occupied.

In light of the public's knowledge of the subject building's issues (i.e., the "Do Not Occupy" order by the City), a reasonable purchaser would likely complete the same level of due diligence we undertook. Furthermore, being safely able to accommodate 175 rooms (upon completion of the assumed renovations) in this location, along with a pub, in an old and complicated nine storey plus basement building will need to be carefully scrutinised. Discussions with BC Housing indicated that the City was extremely co-operative and timely with their approval process for the 13 SROs they renovated between 2012 and 2017, due to the need to deliver much needed accommodation in this location.

Merrick and their team moved forward with their investigations and reporting, which has been referred to in this report. We emphasized the importance to Merrick to provide a market-driven approach for both the scope of works required and final costing. As part of that, we instructed Merrick to assume that a pub would still be a permitted use on the ground floor, as this is the retail use that would have the greatest demand on this block. Merrick was also well aware of the appeal of the SRO hotel to the non-profit and government sector of the marketplace. Ignoring these types of purchasers that make up a large segment of the market place in this area of the Downtown Eastside would not be reasonable.

Merrick completed a renovation scenario, which although it included a pub, also included other uses more suitable to a not-for-profit operator, such as administration and health care support offices on the main floor. We note that if the area of the pub were to be increased and the amenity support areas decreased, the value of the subject property "as complete" would increase. However, costs would not likely change significantly and the final value would still be a significantly negative value. As such, there would be no material changes to our final value conclusions.

Although it would take considerably more time and expense, and it has not been completed in this appraisal, we recommend two scenarios of value be provided. The first would be a purely market approach with the assumption the property would be sold to a market purchaser, as opposed to a not-for-profit group. The second scenario would consider the type of works a not-for-profit group would undertake. In this scenario, there would be no pub and likely more amenity space or other commercial/office area.

In any event, due to the significant costs of restoration and renovation, both scenarios would continue to conclude with a negative value.

In order to estimate the subject property's market value we have completed the following two valuation approaches:

- 1) Land Value Less Demolition Costs, and
- 2) Value as if Renovated Less Renovation Costs.

Under the first approach we have estimated the land value and also provided a land value less demolition costs. The demolition costs are based on the building's estimated hazardous materials removal cost prepared by Pinchin West and our discussions with industry participants, including BTY Group.

Under the second approach we have estimated the value as if renovated less renovation costs. To determine the required renovations to the subject building, including assumed environmental remediation, we have relied upon the Balmoral Hotel Regeneration Report prepared by Merrick Architecture, dated February 26, 2019. The Regeneration Report included information and/or costing pertaining to Architecture and Heritage prepared by Merrick Architecture, Building Code prepared by McAuley Thorson, Structural Engineering prepared by Bush Bohlman and Partners, Mechanical Engineering prepared by MCW, Electrical Engineering prepared by WSP, Building Envelope prepared by Morrison Hershfield, Hazardous Material Abatement prepared by Pinchin West and Environmental prepared by Hemmera. To determine the building's required renovation costs we have relied upon the cost management report (Balmoral Hotel Regeneration Schematic Design Class C Estimate) prepared by BTY Group, dated February 25, 2019.

As per Merrick Architecture's Regeneration Report, *"Upgrades to the Balmoral will conform to new building code requirements as far as possible. Because it is an existing early 1900's building relaxations will need to be sought for a number of non-conforming code issues such as:*

- *Non-conforming stair rise and run*
- *Residential units opening into an exit stair*
- *Low headroom issues*
- *Non-conforming elevator"*

As noted in this report the two approaches both produced negative values. Due to the significant renovation and removal of hazardous materials costs, the value as if renovated less all costs of renovations indicated a negative value of -\$22,960,000. The land value less demolition and hazardous material removal costs also indicated a negative value of -\$240,000. However, at this time there is no definitive direction from the City whether the subject building can be demolished.

It is uncertain as to what the current market value for the subject property is at the present time. It may be reasonable to assume that a potential purchaser would pay \$1.00 for the property with the intention to hold until such time that changes or improvements in the market make renovation economically feasible. However the holding costs including property taxes and building insurance, risk and other considerations will likely deter most private market participants.

After consideration of all factors pertinent to value, it is our opinion that the current market value of the subject property, subject to the Assumptions and Limiting Conditions herein, as of October 1, 2019 is estimated at:

ONE DOLLAR

\$1.00*

***We are unaware of any instances of property being transferred with a negative value. Therefore, a value of \$1.00 is concluded for the subject property with the knowledge that a purchaser would be required to assume the financial obligations with either holding or demolishing and redeveloping the property. In light of these risks and significant costs of both demolition or renovation provided to us and on which we have relied, we consider the most likely purchaser would be a government or non-profit group where the benefits of providing social or low cost housing might be considered to offset the costs.**

To determine the required scope of renovations, we have relied upon reports prepared by Merrick Architecture, Thorson McAuley, Bush Bohlman and Partners, MCW, WSP, Morrison Hershfield, Pinchin West and Hemmera. Based on this required scope of work, we have relied upon the costing report prepared by BTY Group. The costing report was prepared on February 25, 2019, and we assume there has not been a material change to the costs, as of our effective date of appraisal. We have relied on the recommendations of the above consultants to restore the subject property to a condition required by City regulations and bylaws and the costs of construction and renovation that would allow them to be legally occupied. Should those City regulations be relaxed or changed, it is probable that the costs we have relied upon will change and therefore, so would our estimates of value. Should this occur, we reserve the right to amend our values accordingly.

Our report and addenda are attached and form the basis of our opinions and must be read as a whole, as sections taken out of context may be misleading. Reference is made to the Terms of Reference and the Assumptions and Limiting Conditions contained therein.

The appraisal may be used 1) in negotiations with the claimant to settle the claim for compensation; 2) as the basis for an advance payment to the claimant pursuant to Section 20 of the Expropriation Act; and 3) as expert evidence before the BC Supreme Court (if appropriate). This report has been prepared for Young Anderson, and their representatives, for the uses stated above.

The report has been prepared to meet the Canadian Uniform Standards of Professional Appraisal Practice (Standards). Should any questions arise by reason of the report, please contact the undersigned at your convenience.

Yours truly,

CWPC Property Consultants Ltd.



Per: Reagan Stinson
B.Com (hons), AACI, P.App, MBA



Stuart Carmichael
B.Bus. (L.Econ.), AACI, P.App

Regent Appraisal – Executive Summary

October 28, 2019

Reference Number: 14493C-0618

Young Anderson
Barristers and Solicitors
1616-808 Nelson Street
Box 12147 – Nelson Square
Vancouver, BC V6Z 2H2

Attention: Mr. Sukhbir Manhas

Re: **Appraisal of a Commercial/Rooming House Property - "Regent Hotel"**
Located at 160 East Hastings Street, Vancouver, BC

Further to your request, we have prepared an appraisal of the referenced property estimating the current market value of the fee simple interest. This appraisal was prepared as an update to the original report (reference #14493-0618) for the City of Vancouver "the City", with an effective date of March 9, 2018 and our previous report (#14493A-0618) for Young Anderson with an effective date of February 25, 2019. The estimated market value of the subject property as of February 25, 2019 was \$1.00.

The subject property comprises a ±6,100-square-foot site, located on the south side of East Hastings Street between Columbia and Main Streets. The site is zoned DEOD (Downtown Eastside-Oppenheimer District) and situated within Sub-area 1 of the DEOD Development Plan. The site is improved with a ±106-year-old, eight-storey plus basement building that includes ground floor commercial space previously occupied by the Regent, and 161 single-room occupancy (SRO) licensed units on the second to eighth floors.

As of the effective date of valuation, the entire building was vacant due to health and safety concerns and a large number of outstanding work orders issued by the City, which resulted in the building being deemed unsafe to occupy. The building was vacated on June 28, 2018. As a "Do Not Occupy" order was issued on June 20, 2018 by the City until completion of the outstanding work orders, an accurate estimate of restoration costs was an essential part of this appraisal.

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Melissa Nestoruk B.Comm. BA
Nikiah Wood B.Admin.

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Due to the complexity of estimating the costs involved in restoring the Regent Hotel to a condition that would allow it to be legally occupied, we contacted BTY Group, who has significant experience with costing the renovations of Single Room Occupancy (SRO) hotels. Following an inspection of the building and discussions with BTY, they were not able to provide a written report and estimate of renovation costs without properly defining the required scope of work. This type of analysis was also beyond our expertise.

We next contacted GHJ Consultants Ltd., a building code consultant company. However, as GHJ had already provided advice (although apparently not formally engaged) to Spratt Emanuel Engineering Ltd., who was working for the subject property's current owner, we considered it appropriate to engage the services of another consultant.

At this time, we asked BTY to suggest another consultant with expertise in this type of work with downtown Eastside SRO properties. They recommended Merrick Architecture be engaged. Merrick indicated at the outset that due to the complexity of this type of work, it would be necessary to engage the services of the following consultants.

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4. Mechanical Engineering prepared by MCW,
5. Electrical Engineering prepared by WSP,
6. Building Envelope prepared by Morrison Hershfield,
7. Hazardous Material Abatement prepared by Pinchin West and,
8. Environmental prepared by Hemmera.
9. To determine the building's required renovation costs we have relied upon the cost management report (Regent Hotel Regeneration Schematic Design Class C Estimate) prepared by BTY Group.

Prior to reporting these findings back to our client, we discussed the need to assemble such a large team with others in the marketplace, as the consultant costs would be significant. From those investigations it quickly became apparent that the services of the entire recommended consulting team were essential for a reliable analysis to be undertaken. When purchasers of similar complex properties in a poor state of repair undertake due diligence, a similarly composed team is generally assembled. Each member of the team brings the expertise essential to evaluating the obligations that the SRO hotel will present for it to be restored and occupied.

In light of the public's knowledge of the subject building's issues (i.e., the "Do Not Occupy" order by the City), a reasonable purchaser would likely complete the same level of due diligence we undertook. Furthermore, being safely able to accommodate 154 rooms (upon completion of the assumed renovations) in this location, along with a pub, in an old and complicated nine storey plus basement building will need to be carefully scrutinised. Discussions with BC Housing indicated that the City was extremely co-operative and timely with their approval process for the 13 SROs they renovated between 2012 and 2017, due to the need to deliver much needed accommodation in this location.

Merrick and their team moved forward with their investigations and reporting, which has been referred to in this report. We emphasized the importance to Merrick to provide a market-driven approach for both the scope of works required and final costing. As part of that, we instructed Merrick to assume that a pub would still be a permitted use on the ground floor, as this is the retail use that would have the greatest demand on this block. Merrick was also well aware of the appeal of the SRO hotel to the non-profit and government sector of the marketplace. Ignoring these types of purchasers that make up a large segment of the market place in this area of the downtown Eastside would not be reasonable.

Merrick completed a renovation scenario, which although it included a pub, also included other uses more suitable to a not-for-profit operator, such as administration and health care support offices on the main floor. We note that if the area of the pub were to be increased and the amenity support areas decreased, the value of the subject property "as complete" would increase. However, costs would not likely change significantly and the final value would still be a significantly negative value. As such, there would be no material changes to our final value conclusions.

Although it would take considerably more time and expense, and it has not been completed in this appraisal, we recommend two scenarios of value be provided. The first would be a purely market approach with the assumption the property would be sold to a market purchaser, as opposed to a not-for-profit group. The second scenario would consider the type of works a not-for-profit group would undertake. In this scenario, there would be no pub and likely more amenity space or other commercial/office area.

In any event, due to the significant costs of restoration and renovation, both scenarios would continue to conclude with a negative value.

In order to estimate the subject property's market value we have completed the following two valuation approaches:

- 1) Land Value Less Demolition Costs, and
- 2) Value as if Renovated Less Renovation Costs.

Under the first approach we have estimated the land value and also provided a land value less demolition costs. The demolition costs are based on the building's estimated hazardous materials removal cost prepared by Pinchin West and our discussions with industry participants, including BTY Group.

Under the second approach we have estimated the value as if renovated less renovation costs. To determine the required renovations to the subject building, including assumed environmental remediation, we have relied upon the Regent Hotel Regeneration Report prepared by Merrick Architecture, dated February 26, 2019. The Regeneration Report included information and/or costing pertaining to Architecture and Heritage prepared by Merrick Architecture, Building Code prepared by McAuley Thorson, Structural Engineering prepared by Bush Bohlman and Partners, Mechanical Engineering prepared by MCW, Electrical Engineering prepared by WSP, Building Envelope prepared by Morrison Hershfield, Hazardous Material Abatement prepared by Pinchin West and Environmental prepared by Hemmera. To determine the building's required renovation costs we have relied upon the cost management report (Regent Hotel Regeneration Schematic Design Class C Estimate) prepared by BTY Group, dated February 25, 2019.

As per Merrick Architecture's Regeneration Report, *"Upgrades to the Regent will conform to new building code requirements as far as possible. Because it is an existing early 1900's building relaxations will need to be sought for a number of non-conforming code issues such as:*

- *Non-conforming stair rise and run*
- *Residential units opening into an exit stair*
- *Low headroom issues*
- *Non-conforming elevator"*

As noted in this report the two approaches both produced negative values. Due to the significant renovation and removal of hazardous materials costs, the value as if renovated less all costs of renovations indicated a negative value of -\$17,840,000. The land value less demolition and hazardous material removal costs also indicated a negative value of -\$100,000. However, at this time there is no definitive direction from the City whether the subject building can be demolished.

It is uncertain as to what the current market value for the subject property is at the present time. It may be reasonable to assume that a potential purchaser would pay \$1.00 for the property with the intention to hold until such time that changes or improvements in the market make renovation economically feasible. However the holding costs including property taxes and building insurance, risk and other considerations will likely deter most private market participants.

After consideration of all factors pertinent to value, it is our opinion that the current market value of the subject property, subject to the Assumptions and Limiting Conditions herein, as of October 1, 2019 is estimated at:

ONE DOLLAR

\$1.00*

***We are unaware of any instances of property being transferred with a negative value. Therefore, a value of \$1.00 is concluded for the subject property with the knowledge that a purchaser would be required to assume the financial obligations with either holding or demolishing and redeveloping the property. In light of these risks and significant costs of both demolition or renovation provided to us and on which we have relied, we consider the most likely purchaser would be a government or non-profit group where the benefits of providing social or low cost housing might be considered to offset the costs.**

To determine the required scope of renovations, we have relied upon reports prepared by Merrick Architecture, Thorson McAuley, Bush Bohlman and Partners, MCW, WSP, Morrison Hershfield, Pinchin West and Hemmera. Based on this required scope of work, we have relied upon the costing report prepared by BTY Group. The costing report was prepared on February 25, 2019, and we assume there has not been a material change to the costs, as of our effective date of appraisal. We have relied on the recommendations of the above consultants to restore the subject property to a condition required by City regulations and bylaws and the costs of construction and renovation that would allow them to be legally occupied. Should those City regulations be relaxed or changed, it is probable that the costs we have relied upon will change and therefore, so would our estimates of value. Should this occur, we reserve the right to amend our values accordingly.

Our report and addenda are attached and form the basis of our opinions and must be read as a whole, as sections taken out of context may be misleading. Reference is made to the Terms of Reference and the Assumptions and Limiting Conditions contained therein.

The appraisal may be used 1) in negotiations with the claimant to settle the claim for compensation; 2) as the basis for an advance payment to the claimant pursuant to Section 20 of the Expropriation Act; and 3) as expert evidence before the BC Supreme Court (if appropriate). This report has been prepared for Young Anderson, and their representatives, for the uses stated above.

The report has been prepared to meet the Canadian Uniform Standards of Professional Appraisal Practice (Standards). Should any questions arise by reason of the report, please contact the undersigned at your convenience.

Yours truly,

CWPC Property Consultants Ltd.



Per: Reagan Stinson
B.Com (hons), AACI, P.App, MBA



Stuart Carmichael
B.Bus. (L.Econ.), AACI, P.App

Leasehold Interest – Executive Summary

October 28, 2019

Reference Number: 14493B-0618

Young Anderson
Barristers and Solicitors
1616-808 Nelson Street
Box 12147 – Nelson Square
Vancouver, BC V6Z 2H2

Attention: Mr. Sukhbir Manhas

**Re: Short Narrative Appraisal of the Tenant's Leasehold Interest in a
Commercial/Rooming House Property - "Regent Hotel"
Located at 160 East Hastings Street, Vancouver, BC**

Further to your request, we have prepared a short narrative appraisal to estimate the market value of the leasehold interest of the tenant ("Mr. Darrel Dunlop") in the Regent Hotel's commercial pub space (the "Subject", "Subject Premises" or "Premises"), given the tenant has a lease agreement to occupy the space from August 1, 2018 to July 31, 2021.

The Subject Premises is situated within a ±106-year-old, eight-storey plus basement building that includes ground floor commercial and basement storage space previously occupied by the Regent Pub, and 161 single-room occupancy (SRO) licensed units on the second to eighth floors. The Subject Premises comprises a portion of the ground floor, the beer cooler in the basement of the building and sufficient space in close proximity to the beer cooler to accommodate a weekly accumulation of pub related items. Reasonable access to other parts of the building including the elevator, hallway and keg entry areas is also included. The exact size of the Premises is unknown as there were no lease/building plans available that delineate the leased area on the main floor and basement.

The Subject's building is located on a ±6,100-square-foot site on the south side of East Hastings Street between Columbia and Main Streets in the Downtown Eastside. The site is zoned DEOD (Downtown Eastside-Oppenheimer District) and situated within Sub-area 1 of the DEOD Development Plan.

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As of the effective date of valuation, the entire building was vacant due to health and safety concerns and a large number of outstanding work orders issued by the City, which resulted in the building being deemed unsafe to occupy. The building was vacated on June 28, 2018, and a "Do Not Occupy" order was issued by the City on June 20, 2018 until completion of the outstanding work orders.

A brief walk through of the Regent Hotel's main floor pub space (excluding the washrooms) and basement storage area, while the business was still open and operating, was completed by Reagan Stinson on May 29, 2018; however, we note that we were unable to complete a full inspection of the space until November 1, 2018 (after the building was vacated). For the purposes of our analysis, we assume the pub space is in a condition suitable for occupancy.

Sections 36 and 39 of the Expropriation Act have been considered and state:

Frustration of leases

- 36** (1) *A lease is deemed to be frustrated if, at the date of expropriation,*
- (a) the entire interest or estate of a lessee in land is expropriated, or*
 - (b) part of the interest or estate of a lessee in land is expropriated, and the expropriation renders the remaining interest or estate of the lessee unfit for the purposes of the lease.*
- (2) *Subject to subsection (1), if part of the interest or estate in land of a lessee is expropriated, the obligation of the lessee to pay rent under the lease is, to the extent of the interest or estate expropriated, abated.*
- (3) *If there is an inconsistency between a provision of a lease and subsection (1) or (2), that subsection prevails.*

Disturbance damages for lessees

- 39** *If land that is subject to a lease having a term greater than one year is expropriated, the lessee, whether or not he or she is an occupant of the land, is entitled to reasonable disturbance damages in an amount to be determined by the court by having regard to*
- (a) the length of the term of the lease,*
 - (b) the length of the unexpired term of the lease,*
 - (c) any rights to renew or the reasonable prospect of renewal,*
 - (d) the nature of the business, if any, carried out on the land under the lease, and*
 - (e) the extent of the lessee's investment in the land that the lessee cannot reasonably recover.*

After consideration of all factors pertinent to value, it is our opinion that the market rent is potentially greater than the actual contract rent, and as such there is a potential profit rent of \$1,000 per month for the stipulated lease term attributable to the leasehold interest (June 28, 2018 to July 31, 2019). However, we assume the landlord and tenant would have negotiated a market rent for the renewal period from August 1, 2018 to July 31, 2021, which eliminates any further value to the leasehold interest beyond the potential profit rent attributable to the approximate one month period from June 28, 2018 to July 31, 2018.

With consideration to the above, the value of the leasehold interest of the tenant in the Subject Premises, as of October 1, 2019, is:

ONE THOUSAND DOLLARS

(\$1,000)

We note that we are not qualified to estimate potential business losses (if any) or other disturbance damages incurred by the tenant. We understand this will be addressed separately by our client.

Our report and addenda are attached and form the basis of our opinion and must be read as a whole, as sections taken out of context may be misleading. Reference is made to the Terms of Reference and the Assumptions and Limiting Conditions contained therein.

The report has been prepared to meet the Canadian Uniform Standards of Professional Appraisal Practice (Standards). Should any questions arise by reason of the report, please contact the undersigned at your convenience.

Yours truly,

CWPC Property Consultants Ltd.



Per: Reagan Stinson
B.Com (hons), AACI, P.App, MBA



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