

Olympic Village Project Fiasco

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Note: The Issues for Discussion at the end of this case study may require research on the Internet. The sums of money mentioned are approximate, generally as reported in the media at the time. Published here December 2016

The project concept

The Winter Olympics is a major international multi-sport event focusing on winter sports. Big cities compete for the privilege of holding the event under the auspices of the International Olympics Committee (IOC). The IOC is a not-for-profit independent international organization made up of volunteers committed to building a better world through sport. The event is often held at a variety of venues, depending on the type of sport and often requiring big new facilities for the main events. It is a very prestigious affair.

Early in 2000, the Political Party (Original PP) running the City of Vancouver saw an opportunity for hosting the winter Olympics and launched an Application Project to compete for the winter games. The goal of this project was simply to win the right to hold the games. To do so it was necessary to present the way in which all of the activities would be accommodated and managed. For example, skiing would be held in Whistler, about 77 miles North of Vancouver, some events could be held in Vancouver itself, while other indoor sports required a new size-compliant facility in Richmond about ten miles to the south.

At the end of 2003, against considerable competition from other suitably placed big cities, Vancouver won the right to hold the event and the members of the Application Project, having delivered on their objective, were disbanded. Early in 2004 the estimated cost was around \$1.35 billion (CAD). By 2009, the estimated cost had grown to \$1.76 billion. Nevertheless, it was projected that the event would contribute \$2.3 billion to the economy in Gross Domestic Product, would create 45,000 jobs and contribute over \$460 million to the tourist industry. The final actual operating cost was stated as \$1.84 billion.¹

Programs like these typically grow through inflation of both money value and stakeholder expectations. It is with this background that the focus of this case study is on a small but significant part of the event, that is, the need to house the athletes who take part and come from all over the world.

At the beginning, the Political Party (Original PP) in charge of the City's affairs saw an opportunity to develop a former industrial area on the shoreline of False Creek close to the heart of downtown. This industrial area now belonged to the city. It would be sold to a developer who would be commissioned to build the necessary accommodation.

The idea was that the accommodation should consist of a series of high rises forming a community containing accommodation that could later be converted to condos for sale to the public. In this way, the developer could recover the costs of both the purchase and the design and construction work. The whole would be named "Olympic Village" and represent a "legacy" project for the benefit of all Vancouverites. At the time, the site consisted mostly of parking lots.

Project development high lights

- The Olympic Village project called for over a thousand units, ranging over a million square feet that would accommodate over 2,800 athletes, coaches, and officials for the 2010 Winter Olympics.
- The City awarded the Olympic Village project to Millennium Southeast False Creek Properties Ltd. (FCPL), who became the original developer.
- To begin with, the project got off to a significantly delayed start during the period when the Original PP controlled City Hall in 2002 to 2005.² Preparation and construction of the site in Vancouver began in February 2006.
- It then emerged that the City had saddled the developer with a contaminated site that took months to clean up.
- Following this the Original PP demanded every possible change they could dream up to the project's design. Nevertheless, construction was completed on 1 November 2009.
- The project was then turned over to the Vancouver Organizing Committee for the 2010 Olympic and Paralympic Winter Games (VANOC) for use during the Winter Games.³
- After the games, the development was returned to the City of Vancouver on 7 April 2010 following which the Olympic Village was converted into residential housing, a community centre, daycare, retail, and service spaces.
- As a result of the rise in costs, the City had a funding crisis and had to seek special legislation to be able to raise the money required to meet the looming budget overruns.
- Due to the City's funding crisis, and consequent late payments to FCPL, FCPL was forced into bankruptcy.

Property highlights

- In the course of the project the previous opposition Political Party (Subsequent PP) had won control of City Hall and had to manage the conversion of the Olympic Village facilities with different ideas such as "Affordable Housing".
- Serious delays occurred, and misjudgments and changes ended up costing the project and, ultimately, Vancouver taxpayers well over \$100 million. That is because at the end of the day Vancouver only got \$70 million of the \$170 million still owed on the original sale of the city-owned land.
- The upfront foul-ups were bad enough, but the final financial coup de grâce came from the new Mayor. His propaganda team decided that the key to winning the next Vancouver civic election of 2008 was to blame the Olympic Village financial mess entirely on their political opponents. This tactic was really a distortion of the facts but it made for very effective politics.
- The mayor called the project a "train wreck" and a multitude of other negative adjectives that put a massive black-death stigmatization on the remaining assets.
- Anyone would realize that these dangerous comments, made at every political opportunity, would drive down both the value of the assets and the ultimate recovery for taxpayers.
- Initially, the condominiums were not popular because of advanced architectural ideas and many units remained empty for an extended period.
- However, today (2016) the Village appears to be finally thriving.

Sales highlights

According to reporter's observations at the time:

- The city was forced to effectively take over the financially plagued Olympic Village project.
- Realtors working on the project estimated that the Mayor's negative comments reduced its value by \$50 million to \$70 million.
- Receivers had to be brought in, which sent further danger signals, and harmed the project's value even further.
- The marketing agent then had to spend millions upon millions of what would end up being taxpayer dollars rebranding the project for the third time.
- Prices of condos were heavily discounted and many very smart investors got to pick up suites for a song, later flipping them for up to a \$500,000 profit, all courtesy of the Vancouver taxpayer.
- Receiver fees, interest charges on the debt and marketing fees went off the Richter scale because it took so long to sell the suites.

Project financials

As one reporter observed:⁴ "And then we came to the final funeral of the patient as the last 67 suites were sold in a bulk deal for \$91 million, funnily enough, just before the upcoming 2014 election."

The final tally indicated that:

- Only \$70 million was recovered on the remaining \$170 million owed by the developer on the original land purchase from the city.
- Therefore, taxpayers lost about \$100 million directly attributable to all the delays at the project's inception, followed by the things that the Mayor had said to harm the project's value.
- As a matter of interest, that last \$100 million could have built 1,000 social housing units, or bought the whole Arbutus rail corridor.⁵
- FCPL, the original developer, suffered losses on the project estimated at \$400 million – separate from the losses incurred by Vancouver taxpayers.
- The final bulk purchaser paid \$91 million to take direct control of the original development company, which included the 67 remaining suites that were worth about \$71 million.
- The remaining \$20 million was paid to acquire the estimated \$400 million in tax losses.
- Consequently, Canadian taxpayers are now paying for the city's mistakes because about \$104 million of otherwise payable income taxes – 26 per cent of \$400 million – may never get paid.

In September 2014, City Hall functionaries attended a celebration dinner to congratulate themselves on their stewardship and final sale of the Olympic Village.

Case Study Assignments

Note: To respond to the following "Lessons Learned" questions, research on the Internet may be necessary to fully respond to the issues raised.

- 1) Make a list of all the stakeholders involved in this project.
- 2) Why do you suppose the Olympic Village project was so badly handled? How did that occur?
- 3) Large sums of money were deployed, so who won and who lost?
- 4) The members of the earlier project, to win the Olympics for Vancouver, were not involved in the execution of the Olympics, including the Olympic Village project. What is your opinion

concerning the effect of this fact? And was that reasonable?

- 5) We have very little information on how the Olympic Village project was actually run in terms of project management, largely because the management of design and construction was contracted out. Nevertheless, map out a schedule of project milestones within the dates provided.
- 6) Develop an outline management plan for the Olympic Village facilities, from the perspective of the "sponsor" and starting right from the beginning.
- 7) Discuss the impact of "politics" on this Olympic Village project and, if you were the project manager, what might you have done differently to avoid this situation?

¹ See https://en.wikipedia.org/wiki/2010_Winter_Olympics

² Notes by Email 10/1/14

³ See https://en.wikipedia.org/wiki/2010_Olympic_Village

⁴ Notes by Email 10/1/14

⁵ Another controversial project in Vancouver