

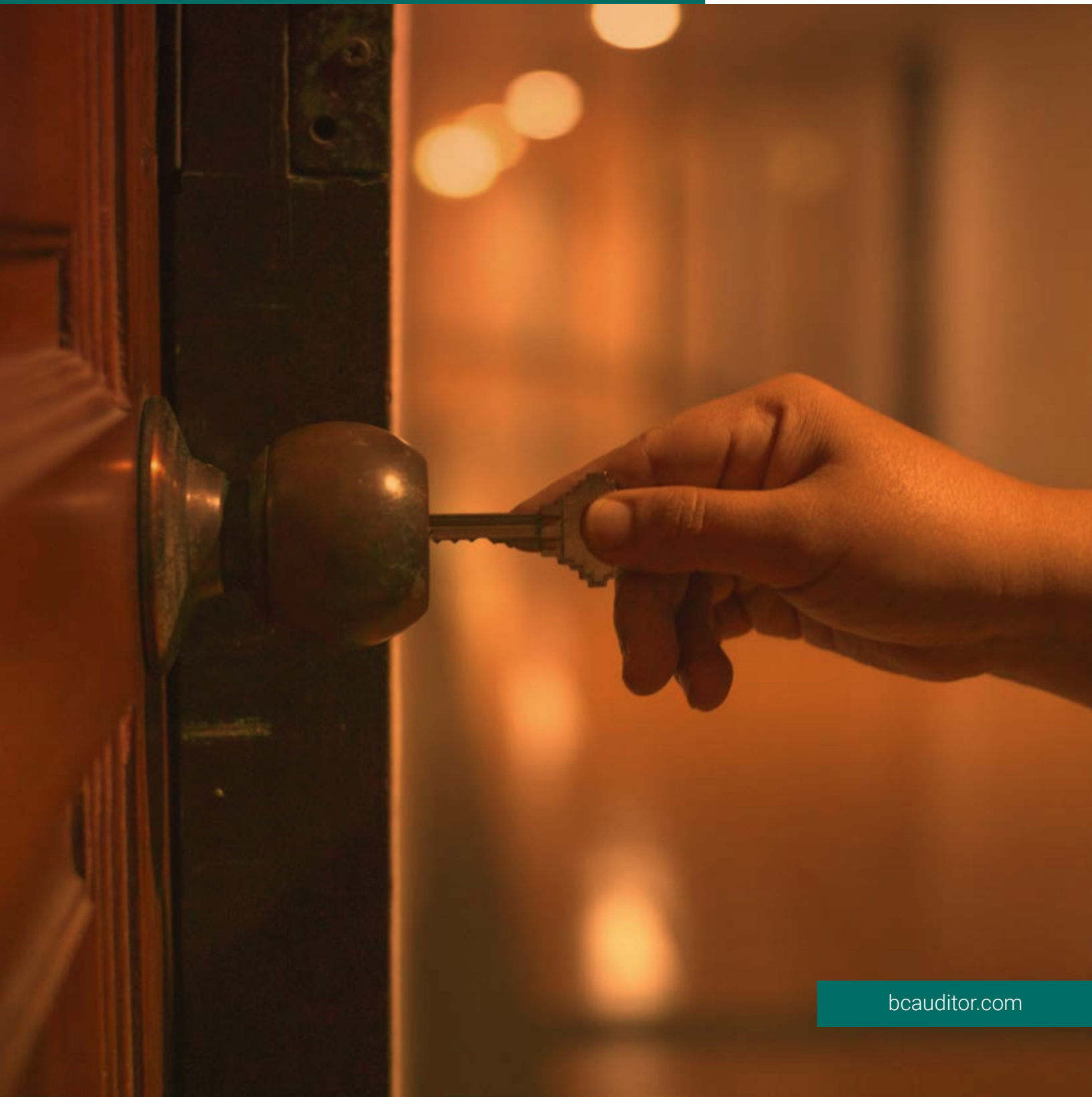


OFFICE OF THE
Auditor General
of British Columbia

BC Housing's COVID-19 Response: Property Purchases

An independent audit report

March 2022



bcauditor.com



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The Honourable Raj Chouhan
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
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Dear Mr. Speaker:

I have the honour to transmit to the Speaker of the Legislative Assembly of British Columbia the report, *BC Housing's COVID-19 Response: Property Purchases*.

We conducted this audit under the authority of section 11(8) of the *Auditor General Act*. All work in this audit was performed to a reasonable level of assurance in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*.

Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.

March 2022

Contents

Audit at a Glance	4
Background	6
Objective	8
Conclusion	10
Findings	11
About the audit	20
Appendix A: Audit criteria	21



The Office of the Auditor General of British Columbia acknowledges with respect that we conduct our work on Coast Salish territories, primarily on the traditional lands of the Lekwungen-speaking people (Esquimalt and Songhees Nations) and the WSÁNEĆ people (Pauquachin, Tsartlip, Tsawout, Tseycum First Nations).

Audit at a glance

Why we did this audit

- Funded by the B.C. government, BC Housing purchased nine properties in Vancouver and Victoria in 2020 and 2021 to house former residents of city parks and other people experiencing homelessness, and to protect them from the spread of COVID-19.
- The properties were a significant public expenditure – totalling \$221 million – that were secured quickly because of the urgency of the government’s pandemic response.
- We did this audit to see if, despite the challenging COVID-19 circumstances, BC Housing adhered to the usual rules and procedures, completed the purchases within the government’s approved budget, and paid fair market value.

Objective

To determine whether BC Housing’s purchases of nine properties in Vancouver and Victoria during the COVID-19 pandemic were carried out in accordance with relevant government approvals and BC Housing policies and procedures.

Audit period:

April 2020 to December 2021

Conclusion

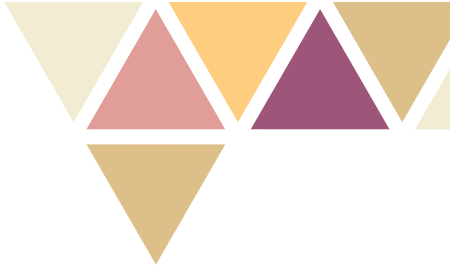
BC Housing met all relevant approvals and policy requirements for the purchases of nine properties in Vancouver and Victoria in 2020 and 2021.

We made no recommendations.

What we found

All required approvals were received for the property purchases

- The government approved a budget for four properties purchased in 2020 and the purchase of five properties in 2021.
- The total purchase amount for the nine properties was within the government’s approved budget.
- BC Housing met all required government directives.
- BC Housing’s board of commissioners approved individual purchases of more than \$35 million as required: the Howard Johnson Hotel (\$56.6 million) and the Patricia Hotel (\$64.4 million), both in Vancouver.
- BC Housing’s executive committee approved all nine purchases.



What we found *(continued)*

Required due diligence reviews were completed by BC Housing

- Due diligence reviews, required by internal policies and procedures, were performed for all acquisitions.
- The appropriate levels of due diligence reviews were determined after assessing potential risks and impacts of the pandemic.
- Some due diligence items were considered less applicable and were deferred with the approval of the executive committee.

Formal market value appraisals were received for all properties

- BC Housing obtained market value appraisals for all nine properties as required by internal policies and procedures.
- The total of the purchases (\$202.4 million) was 8.5% below the total appraised market values (\$220 million) for the nine properties.

After reading the report, you may want to ask the following questions of government:

1. *How does BC Housing plan to keep the public informed about these purchases and other similar significant investments?*
2. *What has BC Housing learned from the circumstances of these purchases and how will it inform future investments?*
3. *What are the long-term plans for the properties, how will supports for residents be coordinated, and how will the plans be funded?*

Background

On March 18, 2020, the B.C. government declared a provincial state of emergency in response to the COVID-19 pandemic. Five weeks later, the minister of public safety and solicitor general issued an order under the Emergency Program Act requiring residents of Oppenheimer Park in Vancouver and Topaz Park and Pandora Avenue in Victoria, to leave to protect them from COVID-19.

In consultation with the cities of Vancouver and Victoria, the province took measures to assist people living in city parks by providing safe places to stay, enabling appropriate physical distancing, and improving access to health and social supports.

In support of the B.C. government's pandemic response, BC Housing purchased four hotels in Vancouver and Victoria (with 399 spaces) for \$110 million in 2020. In May 2020, 261 people living in Oppenheimer Park and 344 people living in Topaz Park and Pandora Ave. were moved to various temporary accommodations provided by BC Housing, including emergency response centres, purchased and leased hotels and hotel rooms.

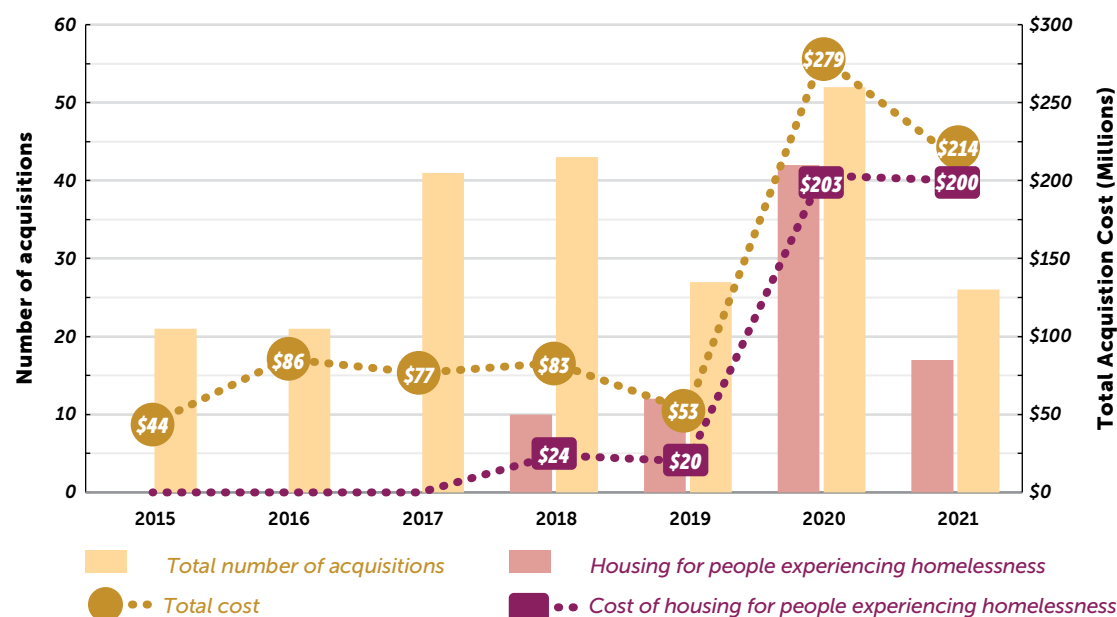
BC Housing purchased five more hotels (with 411 spaces) in 2021 for \$111 million. BC Housing intends to redevelop many of the properties for permanent, affordable, and supportive housing.



While other acquisitions were funded from BC Housing’s annual capital budget, the nine purchases that are the subject of this audit were purchased with funds approved by government and drawn from the special account for housing priority initiatives.

We undertook this audit as these purchases were a significant investment of public funds made by BC Housing during the pandemic. The purchases are part of a larger trend toward more BC Housing investments in spaces for people who are experiencing homelessness or who are at risk of homelessness (see Figure 1). In 2020 and 2021, BC Housing reported spending \$403 million to acquire such properties and the nine purchases examined in this audit represent 55 per cent of that total.

FIGURE 1: BC Housing Property Acquisitions April 2015 – October 2021



SOURCE: Data compiled by BC Housing

BC Housing property acquisitions and costs, over seven years, are shown in the yellow bars and gold dotted lines. The pink bars represent properties acquired for people experiencing homelessness, with those costs marked by the purple line. The nine properties in this audit are part of the pink bars for 2020 and 2021.

Objective

This audit was conducted to determine whether BC Housing's purchases of nine properties in Vancouver and Victoria during the COVID-19 pandemic were completed according to relevant government approvals and BC Housing policies and procedures.

Scope

This audit examines BC Housing's purchases of nine properties in Vancouver and Victoria between April 2020 and May 2021 using capital funding from government (not from BC Housing's annual capital budget).

We examined BC Housing's compliance with the approval processes of government, the Provincial Rental Housing Corporation, and BC Housing's board of commissioners and executive committee.

We assessed the degree to which BC Housing complied with the requirements set out in its *Real Property Acquisition and Disposition Policy* with respect to the nine properties.

We did not audit BC Housing's governance over capital purchases or the effectiveness of the housing programs.

[Learn more about the audit criteria.](#)

[Learn more about how we did this audit.](#)

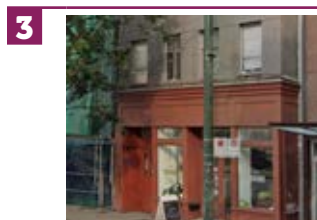
Vancouver



1 **Howard Johnson (Luugat)**
1176 & 1150 Granville Street
Purchased: June 2020
Final Cost: \$56.6M
Photo: BC Housing



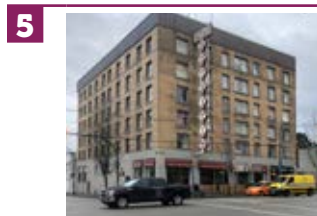
2 **Buchan Hotel**
1906 Haro Street
Purchased: July 2020
Final Cost: \$19.6M
Photo: Buchan Hotel



3 **Thornton Park Hotel**
956 Main Street
Purchased: March 2021
Final Cost: \$5.0M
Photo: BC Housing



4 **Station Hotel**
1012 Main Street
Purchased: March 2021
Final Cost: \$6.9M
Photo: BC Housing



5 **Patricia Hotel**
403 & 427 East Hastings Street
Purchased: April 2021
Final Cost: \$64.4M
Photo: BC Housing

Victoria



6 **Comfort Inn (Muncey Place)**
3020 Blanshard Street
Purchased: May 2020
Final Cost: \$19.2M
Photo: BC Housing



7 **Paul's Motor Inn (Le Soleil)**
1900 Douglas Street
Purchased: June 2020
Final Cost: \$14.5M
Photo: PHS Community Services Society



8 **225 Russell**
225 Russell Street
Purchased: April 2021
Final Cost: \$9.6M
Photo: Our Place Society



9 **Capital City Centre**
1961 Douglas Street
Purchased: May 2021
Final Cost: \$25.2M
Photo: Our Place Society

Conclusion

BC Housing complied with all relevant government approval requirements for the nine properties it purchased in Vancouver and Victoria in 2020 and 2021, and the purchases were carried out in accordance with BC Housing approvals and relevant policies and procedures.



Findings

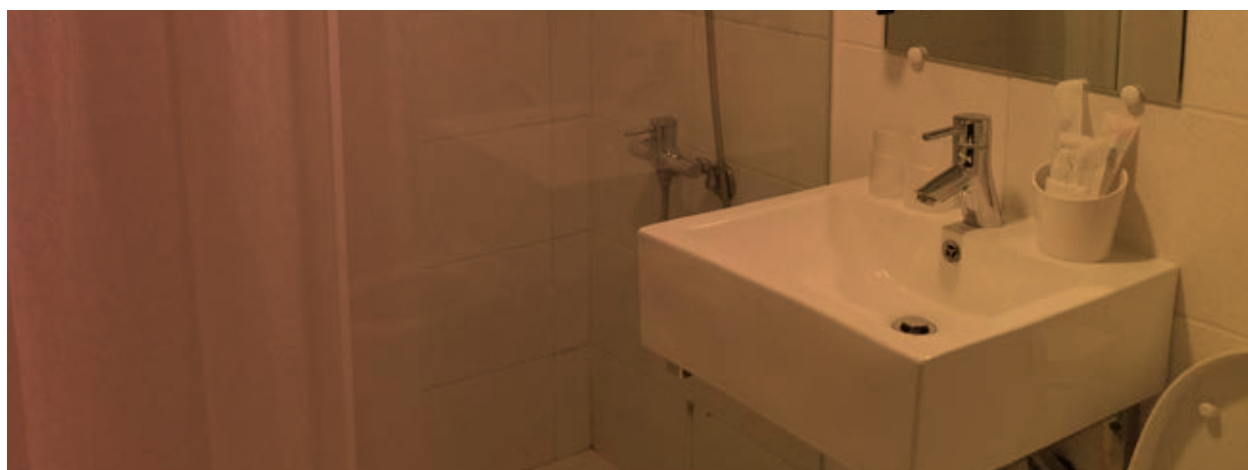
Compliance with approval processes

There were three levels of formal approvals relevant to BC Housing's nine property purchases in the scope of this audit. In this part of the audit, we examined whether the property purchases were approved by Treasury Board, the BC Housing board of commissioners and the BC Housing executive committee.

Treasury Board controls the annual capital budgets of public agencies (ministries and Crown corporations) through a submission, approval, and reporting (i.e., oversight) process. Treasury Board's agency-specific oversight conditions are communicated in decision letters and mandate letters. Occasionally, agencies require approval from Treasury Board for additional funding or special approvals for individual capital projects during the year outside of the annual budget process. That is the case for the property purchases examined in this audit.

BC Housing is the Crown corporation responsible for fulfilling the directives of the attorney general and minister responsible for housing's yearly mandate letter. BC Housing develops, manages, and administers a range of subsidized housing options. It is governed by its board of commissioners, which is responsible to the minister. The board's terms of reference determine its roles and responsibilities for capital projects.

At the organizational level, BC Housing's executive committee and the Provincial Rental Housing Corporation's board of directors provide approval for housing and land acquisitions or other capital projects. The corporation holds the land titles for the majority of the province's social housing.



Treasury Board approved the purchases

What we looked for

We examined if Treasury Board approved BC Housing's purchases of the nine properties in the scope of the audit.

[Learn more about the audit criteria.](#)

What we found

BC Housing received funding approval from Treasury Board to use capital funding from the housing priority initiatives special account for the purchases of the nine properties in the scope of the audit.

Treasury Board approved a budget for BC Housing to purchase four properties in Vancouver and Victoria in May 2020 and an additional budget in July 2020 for the closing costs.

Treasury Board gave approval in principle for a budget in February 2021 for BC Housing to purchase an additional five properties in Vancouver and Victoria. Treasury Board approved funding for each of the five purchases individually in March and April 2021.

The final cost of the nine purchases (\$221 million) was within the approved Treasury Board budget envelope and BC Housing followed all required Treasury Board directives in the purchase and closing of the properties.

Why this matters

These nine properties were purchased during the COVID-19 pandemic in 2020 and 2021 to meet a ministerial order to find alternative housing for people living in public parks in Vancouver and Victoria. It is important that these purchases were reviewed and approved by the Government of B.C. through Treasury Board. This \$221 million expenditure was a significant investment of public funds, in comparison to BC Housing's past capital spending on social housing (see Figure 1).

BC Housing's board of commissioners approved the purchases

What we looked for

The BC Housing board of commissioners provides strategic direction and oversees management of the organization. In doing so, the board of commissioners approves projects with a capital value of \$35 million or greater, as well as projects which meet additional criteria set out in the capital review committee's terms of reference. We examined if BC Housing approved the property purchases that had values of \$35 million or more.

[Learn more about the audit criteria.](#)

What we found

Two of the nine purchases within the scope of this audit exceeded total capital budget amounts of \$35 million, including land and all other development costs: the Howard Johnson Hotel and the Patricia Hotel in Vancouver. BC Housing received purchase approval from its board of commissioners for the two properties in accordance with the board's terms of reference.

The Howard Johnson Hotel received the board of commissioners' approval in 2020 with a purchase price of \$56.6 million.

The Patricia Hotel received the board of commissioners' approval in 2021 with a purchase price of \$64.4 million.

The other seven properties within the scope of this audit had total capital costs under \$35 million and did not require approval from the board of commissioners. They were approved by BC Housing's executive committee and the board of the Provincial Rental Housing Corporation.

Why this matters

By obtaining approval from the board of commissioners for the two properties in the scope of the audit that were above \$35 million, BC Housing ensured that the purchases received the required level of board oversight and were not affected by the circumstances of the pandemic.

BC Housing's executive committee approved the purchases

What we looked for

We looked to see if the BC Housing executive committee or the Provincial Rental Housing Corporation board of directors authorized the property purchases before the purchases were fully committed.

Whenever BC Housing acquires an interest in real estate, its *Real Property Acquisition and Disposition Policy* requires the executive committee or the Provincial Rental Housing Corporation board of directors to grant permission for the acquisition and to approve the purchase price.

[Learn more about the audit criteria.](#)

What we found

BC Housing received approval from the BC Housing executive committee and the Provincial Rental Housing Corporation's board of directors to purchase all nine of the properties in accordance with internal policies and procedures.

The purchases of the nine properties followed typical approval processes for acquisitions of existing housing. The executive committee and the board of directors reviewed the purchases individually and provided approvals in 2020 and 2021 to complete the acquisitions conditional on the completion of favourable due diligence reviews.

The executive committee and the board of directors authorized the purchases of the nine properties once all the conditions were met (i.e., there was no further approval sought from the executive committee or the board of directors).

Why this matters

BC Housing made a significant investment of public funds when it acquired these nine properties. The public expects appropriate checks and balances and approval processes when BC Housing decides to buy properties.

Due diligence requirements

When BC Housing acquires land for development or existing buildings for housing, there is an expectation that work is done to ensure that the project is feasible, a good investment, and does not expose the organization to unnecessary risk. Due diligence is defined as the exercise of care that a reasonable entity or person is normally expected to take before entering into an agreement or contract.

Market value appraisals

What we looked for

BC Housing's *Real Property Acquisition and Disposition Policy* states that a market value appraisal is to be obtained whenever it intends to acquire a property. The appraisal must:

- be commissioned by and addressed to Provincial Rental Housing Corporation or BC Housing,
- be prepared by an accredited appraiser in accordance with the Canadian Uniform Standards of Professional Appraisal Practice,
- estimate market value as defined by the Appraisal Institute of Canada, and
- have a valuation date within one year of the date of the purchase and sale agreement.

What we found

BC Housing obtained market value appraisals for all nine properties in accordance with internal policies and procedures. All the appraisals were commissioned by and addressed to BC Housing. The appraisals were performed by accredited appraisers in accordance with Canadian Uniform Standards of Professional Appraisal Practice.

Each appraisal report stated the estimated market value and the valuation date was within one year of the date of each purchase and sale agreement.

WHAT'S IT WORTH?

A property's assessed value and appraised market value are usually similar but they have different purposes.

Assessed value helps determine property tax amounts. Homeowners are usually most familiar with assessed value, which they see every January in their BC Assessment notice.

Appraised market value estimates how much a property would sell for in the current market. Appraising market value is more complex than determining assessed value, especially for income-earning properties during the COVID-19 pandemic.

The purchase prices were within an acceptable margin of error of the appraised value (BC Housing staff stated that BC Housing accepts a five to 10 per cent margin of error in valuations). The BC Housing executive committee were aware of each valuation and purchase price when it approved the purchases.

The total purchase price (\$202.4 million) was 8.5% below the total appraised market values (\$220 million) for the nine properties.

TABLE 1: Average appraised value, purchase price and final cost of the properties, in order of purchase date

	Date Purchased	Name	Address	Average Appraised Value	Purchase Price	Final Cost
1	May 2020	Comfort Inn (Muncey Place)	3020 Blanshard St, Victoria	\$21.0M	\$18.5M	\$19.2M
2	June 2020	Paul's Motor Inn (Le Soleil)	1900 Douglas St, Victoria	\$18.0M	\$14.0M	\$14.5M
3	June 2020	Howard Johnson (Luugat)	1176 & 1150 Granville St, Vancouver	\$54.5M*	\$45.0M	\$56.6M
4	July 2020	Buchan Hotel	1906 Haro St, Vancouver	\$20.9M*	\$19.0M	\$19.6M
5	March 2021	Thornton Park Hotel	956 Main St, Vancouver	\$4.5M*	\$4.8M	\$5.0M
6	March 2021	Station Hotel	1012 Main St, Vancouver	\$6.4M*	\$6.6M	\$6.9M
7	April 2021	225 Russell	225 Russell St, Victoria	\$8.1M	\$8.0M	\$9.6M
8	April 2021	Patricia Hotel	403 & 427 East Hastings St, Vancouver	\$63.1M	\$62.0M	\$64.4M
9	May 2021	Capital City Centre	1961 Douglas St, Victoria	\$23.5M	\$24.5M	\$25.2M
Total:				\$220.0M	\$202.4M	\$221.0M

* Higher and lower estimations are often given in appraisal reports. The averages of the ranges are shown in the table.

NOTE: the final cost includes the purchase price and closing costs – i.e., the total cost of the acquisition. Closing costs include taxes and fees associated with completing the purchase and transferring ownership.

Why this matters

By obtaining formal market value appraisals, BC Housing ensured that the purchase negotiations adhered to all the same standards and processes that protect the investment of public funds, despite the unprecedented circumstances and added urgency for housing during the pandemic.

Market value appraisals help ensure that BC Housing paid fair market value for the properties.

Physical and legal due diligence reviews

What we looked for

We examined whether BC Housing followed internal policies and procedures and undertook due diligence reviews to evaluate risks resulting from the property purchases.

BC Housing's *Real Property Acquisition and Disposition Policy* sets out the minimum due diligence reviews and activities required when it acquires or sells property. The policy states all appropriate due diligence reviews must be undertaken to identify, analyze, and evaluate the risks resulting from the acquisition, and prepare a risk treatment plan if required. The policy goes on to say that such due diligence reviews may include, but are not limited to:

- environmental site assessment
- site survey
- building condition assessment
- title review
- geotechnical study
- hazardous material survey

We examined whether BC Housing's evaluation of the risks associated with the purchases included the due diligence reviews in the policy.

[Learn more about the audit criteria.](#)

What we found

BC Housing complied with the required due diligence reviews identified in its *Real Property Acquisition and Disposition Policy* for all nine property purchases. The due diligence reviews were conducted for BC Housing by independent third-party contractors.

TABLE 2: Due diligence reviews obtained for the properties, in order of purchase date

	ESA	Site Survey	BCA	Title Review	GEOTECH	HMS
1 Comfort Inn	✓	✓	✓	✓	▶	▶
2 Paul's Motor Inn	✓	NR	✓	NR	▶	▶
3 Howard Johnson	✓	✓	✓	✓	▶	▶
4 Buchan Hotel	✓	✓	✓	NR	▶	▶
5 Thornton Park Hotel	✓	NR	✓	✓	▶	▶
6 Station Hotel	✓	NR	✓	✓	▶	▶
7 225 Russell St.	✓	NR	NR	✓	▶	✓
8 Patricia Hotel	✓	NR	✓	✓	▶	▶
9 Capital City Centre	✓	NR	✓	✓	▶	▶

LEGEND: ✓ = obtained, NR = not required, ▶ = deferred

ESA = Environmental Site Assessment

BCA = building condition assessment

GEOTECH = geotechnical assessment

HMS = hazardous materials survey



BC Housing staff stated that not all the reviews would apply to every acquisition in the same way. Some of the due diligence reviews were considered less applicable to the types of acquisitions examined in this audit. Staff used professional judgment to determine the appropriate due diligence reviews according to assessments of the potential risks and impact in the context of the pandemic.

BC Housing obtained environmental site assessments for all nine properties and obtained building condition assessments for eight properties. Site surveys and title reviews were obtained where necessary. Three properties were surveyed and title reviews were completed for seven properties that had potential complications related to property lines, and agreements placed on the land titles.

BC Housing deferred geotechnical and hazardous materials surveys which were considered low risk for these types of buildings in light of the public health emergency and its plans for the properties. The deferred geotechnical reports for all nine properties are to be conducted during future redevelopment planning. Hazardous materials surveys for the properties were deferred, except for one property which was to be renovated and for which a hazardous materials survey was conducted. The other eight hazardous materials surveys were deferred until major renovations are undertaken.

BC Housing staff stated that some of the due diligence reviews listed in the policy may not always be useful in terms of risk assessment or decision making. For example, a lawyer's examination of land title documents which showed no encumbrances or other legal issues would not provide any additional information or assurance. Similarly, a building condition assessment on a building slated for major renovations wouldn't be useful. WorkSafeBC requires hazardous materials surveys to be completed prior to renovations to determine important risks related to building conditions.

Why this matters

Conducting appropriate due diligence reviews is an important risk management process used by BC Housing to identify, analyze, and evaluate the risks in acquiring or disposing of property. BC Housing undertook a significant amount of work to perform the required due diligence reviews in accordance with its acquisition and disposition policy despite the circumstances and urgent need to secure housing to support the B.C. government's pandemic response.

About the audit

We conducted this audit under the authority of section 11(8) of the *Auditor General Act* and in accordance with the Canadian Standard on Assurance Engagements (CSAE) 3001—Direct Engagements, set out by the Chartered Professional Accountants of Canada (CPA Canada) in the *CPA Canada Handbook—Assurance*. These standards require that we comply with ethical requirements and conduct the audit to independently express a conclusion against the objective of the audit.

A direct audit involves understanding the subject matter to identify areas of significance and risk, and to identify relevant controls. This understanding is used as the basis for designing and performing audit procedures to obtain evidence on which to base the audit conclusion.

The audit procedures we conducted included analysis of public and government documents and interviews and inquiries with BC Housing staff and commissioners.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Our office applies the Canadian Standard on Quality Control (CSQC 1), and we have complied with the independence and other requirements of the code of ethics issued by the Chartered Professional Accountants of British Columbia that are relevant to this audit.

Audit report date: February 17, 2022



Michael A. Pickup, FCPA, FCA
Auditor General of British Columbia
Victoria, B.C.

Appendix A: Audit criteria

Line of Enquiry #1 – Treasury Board approvals

- 1.1 BC Housing received funding approval from Treasury Board to purchase the properties

Line of Enquiry #2 – BC Housing policies and procedures

- 2.1 BC Housing received approval from the Board of Commissioners to purchase properties with a capital value of \$35 million or greater
- 2.2 BC Housing received approval from the PRHC Board of Directors or the Executive Committee of BC Housing to purchase the properties
- 2.3 BC Housing undertook due diligence reviews to evaluate the risks resulting from purchasing the properties (due diligence reviews may include, but are not limited to environmental site assessment, site survey, building condition assessment, title review, geotechnical study, hazardous material survey)
- 2.4 BC Housing obtained a market value appraisal for the properties purchased





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