

1601 Douglas Holdings Ltd.
Suite 305 – 111 Water Street
Vancouver, B.C.
V6B 1A7

May 11, 2020

Karen Hoesse
Director – Sustainable Planning and Community Development

Lindsay Milburn
Senior Planner – Housing Policy Sustainable Planning and Community Development

City Hall – 1 Centennial Square
Victoria, B.C. V8W 1P6

Dear Karen and Lindsay
Re: Fairfield Hotel – 1601 Douglas, Victoria



We are the owners of the Fairfield Hotel at 1601 Douglas Street. 1601 Douglas Holdings Ltd. is owned by Reliance Properties Ltd. and Porte Real Estate Ventures. We write to provide further background from the building owner in relation to correspondence you have received from both the Fairfield occupants and our SRO Tenant, Pacifica Housing.

Both Reliance and Porte own numerous buildings in Victoria and Reliance has focused on the rehabilitation and restoration of Heritage Buildings in Victoria including The Janion, 31 Bastion Square (Board of Trade), Northern Junk, and most recently 780 Blanchard. 1601 Douglas is an important registered heritage building in Victoria, located directly across Douglas Street from City Hall and Centennial Square.

At the time of our purchase in January 2017 the building had been operated for many decades by the same family with retail at grade and the upper two floors as a 62 room SRO (Single Room Occupancy) Hotel with little or no upgrade work done since the building was constructed in 1912. When the building was purchased our intention was to focus on exterior Heritage Restoration work, revitalization of the retail tenancies, and improvements to the building's mechanical and electrical systems. Much of this work has already been completed and is ongoing. The work completed to date is set out on the schedule attached to this letter.

At the time of our purchase we had no plans for the upper levels of the building other than the current SRO use. To this date we have no design nor have we made any permit applications to change or renovate the upper floors of the building.

As neither Reliance nor Porte had the experience or capability to operate an SRO with vulnerable high needs Tenants we sought out non profit housing operators to Lease and operate the SRO. This is a model that has been used in other SRO buildings. Several proponents submitted proposals and we ultimately executed a long term 10 Year Lease with Pacifica Housing for the upper SRO floors of the building commencing January 1, 2018. Prior to the execution of the long term Lease Pacifica had been Leasing the SRO on a short term lease that commenced in April 2017 just three months after we purchased the building. Pacifica was selected in part because they had been placing occupants in the building for the previous owner for many years. Under the Lease Pacifica Housing has responsibility for all aspects related to the SRO occupants and operating the SRO floors of the building as well as some operations of the full building.

The Lease was structured in a way that effectively provided free rent to Pacifica for the SRO. Pacifica was entitled to collect and retain for the payment of expenses all rents from the SRO occupants of the upper floors.

Under the Lease Pacifica was obligated to pay to the Landlord its proportionate share of operating expenses for the building such as Property Tax, Insurance and Utilities among other costs together with a modest management fee.

At no time, from the commencement of the first Lease in April 2017 to today (38 months) has the Landlord received any rent from Pacifica for the SRO. During this time Pacifica has been receiving the rents from the occupants of approximately \$300,000 per year (based on full occupancy) plus \$50,000 (commenced December 15, 2017) per year in a City of Victoria Grant. The only funds received by the Landlord from Pacifica have been for management fees and operating costs paid to third parties such as the City of Victoria up to September 2019.

In mid 2019 we were approached by Pacifica who advised that they had concluded that it was no longer possible from a practical, staffing, safety, occupant health and wellness, and economic sustainability perspective to continue to operate the Fairfield SRO for the unique high need occupants in the building. Pacifica attributed a lot of the increased difficulties and costs of operating the SRO to a radical change in the nature, conduct and needs of the occupants related to the ongoing fentanyl crisis. They advised that they wanted to focus their efforts on relocating all of the building occupants to more suitable and safe self contained housing. Pacifica requested that once the building occupants had been suitably relocated they would like to end the SRO lease approximately 7 years early.

Further Pacifica requested of the Landlord that, in order to redirect financial resources from the building towards occupant relocation and assist with the declining rents due to relocation, that they would no longer be obligated to pay their proportionate share of operating expenses (Taxes, Utilities and Insurance).

In effect in addition to receiving no rents from the SRO the Landlord would now be subsidizing the SRO Lease by a further \$60,000 per year.

This came a surprise to the Landlord however as we further investigated the grants and revenue being received by Pacifica less the very high costs of managing for the needs of the occupants it became clear to us that even with free rent and grant assistance the SRO rooms had no way of continuing to operate without massive government subsidies. Pacifica advised us that there was no such funding is available for SRO operations.

Victoria has very few SRO Hotels so we investigated other jurisdictions. We found guidance in the City of Vancouver Single Room Occupancy Revitalization Action Plan completed November 2017 (a copy of which is attached to this letter). Below is an excerpt from the report:

Page 5 - "SROs in Vancouver are both privately owned and owned by a non-profit or government. Most SROs are nearing the end of their useful life cycles and reflect an outdated housing form that compromise tenants' safety and dignity, with small rooms and shared bathrooms and kitchens. However, improving private SRO conditions while keeping rents affordable is an impossible challenge without additional investment or subsidies."

At this point we had to conclude that without substantial operating subsidies the SRO rooms had no way of continuing to operate after all the current occupants had been properly relocated to suitable self contained housing.

We were further advised by Pacifica that they would propose to the City of Victoria that the yet un-allocated City of Victoria grant received by Pacifica for the Fairfield building SRO operation could be used to assist with relocation costs.

We entered into discussions with Pacifica and they began their program to relocate all the SRO occupants with a mutual understanding that the Lease would terminate once all the rooms had been

vacated. We further agreed to assist with relocation by waiving Pacifica's payment of operating costs commencing in September 2019 through to the time the SRO is vacant. Although we have not yet settled the specific terms of early termination of the Pacifica Lease we have been operating on this basis and active discussions are ongoing.

Pacifica's relocation program began in September 2019 and now with the onset of the Covid-19 Pandemic Pacifica have substantially accelerated and increased their efforts to complete the relocation process as further set out in Pacifica's April 24, 2020 letter to the City (Copy Attached). We understand that there are now approximately 40 of the 62 rooms still occupied.

In addition to the free rent provided to Pacifica, and the further forgiveness of operating costs and in light of the recognized unsuitability of SRO housing, in particular during a deadly Pandemic, the Landlord has initiated discussions to provide further financial assistance for Pacifica to complete the relocation of all the remaining SRO occupants. The Landlord can offer assistance however based on Pacifica's relocation cost estimates there will need to be several funding sources to promptly, safely, and successfully complete the relocation process for all the occupants to suitable self contained housing. We hope the City of Victoria will further assist Pacifica with this re-location program.

The owner wants to be clear that there is no way the SRO can continue to operate with partial occupancy as it was not even close to being viable or sustainable as a full SRO without substantial subsidies.

In summary the building owner has always been acutely aware of the complexities and vulnerabilities of the population of occupants in the Fairfield building. Due to Fentanyl and Covid-19 these issues have only become more complex since the beginning of the Pacifica Lease. This is why from the outset we have sought to rely on professional non profit housing operators to Lease the SRO portion of the building. It has now become obvious that even without paying rent and operating expenses to the Landlord, receiving all the rents from the occupants, and a grant from the City that even the professionals can not operate this type of housing in a sustainable manner.

We have the utmost respect for Pacifica and the herculean task they face in providing and operating SRO housing in the Fairfield in a safe manner for both the occupants and their staff, particularly in light of the Covid-19 Pandemic. The fact that they cannot make this work even with the extensive supports of the Landlord and the City is proof of how unsustainable and unsuitable this form of SRO housing has become.

The only way forward is to complete the relocation process and to not continue occupy the building for this type of unsuitable and, in a changed Covid-19 world, unsafe form of housing. The building owner continues to be at the table to achieve this outcome.

After the upper floors of the building have been fully vacated through a properly executed relocation program we would be happy to discuss with the City and others how this building can be repurposed to some form of suitable self contained housing be it non market or other.

We are available at the convenience of City Staff and or City Council to discuss further and answer any questions that you may have.

Kind regards.

Signed Copy to Follow

Jon Stovell

Reliance Properties Ltd.

cc Pacifica Housing

Signed Copy to Follow

David Porte

Porte Real Estate Ventures LP

Fairfield Hotel – Schedule of Work Completed or in Process

Summary of work completed – and ongoing – in the Fairfield Building as per below:

- Exterior Renovation: West (Douglas St) and South (Cormorant St) elevations levels 2-3 and Cornice – complete.
 - Masonry Repair and repointing
 - Terracotta cladding restoration
 - Cornice restoration
 - Windows restoration (Includes installation of double glazing unit to improve acoustical and energy conditions in the building).
- CRU Renovations:
 - Revitalization, Restoration of Storefront in suites 1605, 1607, 1609 Douglas Street – Common Universal washroom renovation - complete
 - Interior Renovations to provide clean shell space for Tis. Independent HVAC per suite from building system – complete.
 - 1605 suite – Tenant Improvement for Nail Spa – complete
 - 1607 suite – Tenant Improvement (pending lease of the space) – Provisions for new Commercial Garbage room space at the back (designed - pending for lease of space implementation).
 - 1609 suite – Tenant Improvement for Low Occupant Load A2 Assembly – Tea Place – complete.
 - Revitalization, Restoration of Storefront in suites 1601 Douglas St. (on going – Permits applied for).
 - 1601 suite – Tenant Improvement for Restaurant Assembly – (in progress pending lease of the space).
- Building Lower roofs (interior suite Light-wells roofs recapped) – complete
- Building Boiler refurbishing – complete
- Building Boiler room into Main building Mechanical/electrical room – Hazmat remediation - complete

- Building Power Upgrade - 3 phase, 4 wire, 120/208 Volts to 1200 Amp main switch – includes new panels for all CRU, house panel and residential panels – new electrical room at ground level - complete
- Building Water Upgrade – into 4” Main water domestic service (on going – Permits applied for – awaiting City of Victoria works).
- Building Gas upgrade – Installation of a third meter for 1601 Douglas St using existing incoming line (Coordinated with Fortis – pending lease of the space).