



Saltspring project leaves shareholders on a limb

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In a two-part column in January 2006, I raised a red flag about a resort on Saltspring Island that is being developed by Vancouver businessman Brian Hauff.

The project, known as The Cottages, is located on Bullock Lake near Ganges. It consists of a lodge, a separate pool building, and 123 cottages in various stages of construction.

The project is being developed by Tuan Development Inc., a B.C.-registered company controlled by Hauff.

In my earlier columns, I noted that Hauff is a former bankrupt, a failed real estate developer, and president of a junior public company (Agronix Inc., quoted on the dreadful OTC Bulletin Board in the United States) that he conceded was "a piece of junk."

In particular, I noted this was Hauff's second attempt to develop this project. During the first go-around, the lender was Multimetro Mortgage Corp., a mortgage broking firm run by Vancouver businessman Ken Megale.

To fund the first stage, Multimetro raised \$8 million from many small investors, but much of that money was used to pay hefty brokerage fees to Multimetro and extremely high rates of interest to investors.

There were also construction delays and problems with the Capital Regional District, which never really liked the project. Eventually, it went into foreclosure. Multimetro lenders, who by this time were owed \$11 million including accrued interest, lost everything.

The property was put on the auction block and, lo and behold, Hauff's company, Tuan Development, ended up buying it for \$8.5 million, setting the stage for round two.

Hauff didn't put any of his own money into the deal. It was financed entirely by Gibraltar Mortgage Ltd., a Calgary mortgage broking company which, like Multimetro, raised the money from numerous small investors in B.C. and Alberta by offering high rates of interest.

By the time I arrived on the scene in January 2006, Gibraltar had committed \$25

million for the first phase. Hauff was running an expensive marketing campaign to pre-sell the units, including seductive newspaper ads urging investors to hurry, as demand would surely exceed supply.

But sales were not going well. The units were expensive, and zoning restrictions limited usage by prospective owners. The Capital Regional District had also imposed a stop-work order after discovering that Hauff was making changes that did not accord with the original building permit.

"Although this glitch will probably be worked out," I noted at the time, "I am not at all sure that this project will be completed without somebody's fingers being burned."

Sadly, that prophecy is now coming true. In February, Gibraltar called its loans. On May 18, Tuan Development applied for temporary protection from its creditors under the Companies' Creditors Arrangement Act. MacKay & Co. Ltd. has been appointed monitor.

According to an affidavit filed by Hauff, the project has amassed nearly \$32 million in debts. Of this, Gibraltar provided about \$31 million, including accrued interest.

Gibraltar investors are secured by first and second mortgages on the property, but it is not clear that the partly finished project has enough equity to repay them in the event of liquidation.

A \$1-million third mortgage was granted to secure advances made by MMT Properties Ltd., which Hauff hired to market the project. MMT, interestingly enough, is run by Megale. Another \$1.12 million is owed to trade creditors, who are unsecured.

In an affidavit, Hauff blamed construction delays caused by Gibraltar's failure to raise funds in a timely manner, and scheduling difficulties due to the high demand for construction trades.

He said he believes creditors will recover more if the project is reorganized and development is allowed to continue, than if it is liquidated. He claims he has received expressions of interest from other financiers.

Hauff's affidavit provides another potentially disturbing piece of information: He said Tuan Development is 75 per cent owned by himself and 25 per cent by Saltspring Island Investments Ltd., which is owned by Gibraltar -- a potential conflict of interest.

It is not clear whether Gibraltar investors were advised of this potential conflict. Gibraltar's president and CEO, Darrell Cook, did not return my calls. Gerry McCracken, the firm's commercial mortgage underwriter, could have cleared up the matter, but he said he is "not at liberty" to discuss the matter, as it is before the courts.

Tuan Development's application for long-term relief from creditors is tentatively set to be heard next Wednesday. Meanwhile, only three, one-quarter units have been pre-sold (a total of three-quarters of a unit) and interest on Gibraltar's loans is accruing at the rate of \$500,000 per month, money that Gibraltar investors are unlikely to ever see.

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