

# CONFIDENTIAL INVESTMENT MEMORANDUM

## KELOWNA BUSINESS CENTER

1634 HIGHWAY 97N, KELOWNA, BC

*A rare opportunity to acquire a fully occupied Highway retail and office complex in the heart of a vibrant and stable community with strong growth trends.*

*This project enjoys quality construction, excellent signage opportunities, extensive parking, diversified tenant base, good Highway access and egress with multiple site entrances and an ever appreciating location.*



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# Executive Summary

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<b>Offer Process:</b>	Offers to “Melcor REIT Limited Partnership” c/o Peter@corpaccord.com will be evaluated upon receipt.
<b>Property Type:</b>	Multiple Tenant Retail/Office Complex
<b>Civic Address:</b>	1634 Harvey Avenue (Highway 97North near Burtch), Kelowna, B.C. V1Y 6G2
<b>Estimated Building Area:</b>	Office/Retail building: 83,343 sq.ft. (Gross)   70,869 sq.ft (Rentable Per Leases) Storage building: 4280 sq.ft. (Gross)   3600 sq.ft (Rentable per Leases) Total: 87,966 sq.ft. (Gross)   74,469 sq.ft (Rentable per Leases)
<b>Site Area:</b>	Before additional easement area: 3 acres   130,680 sq.ft.
<b>Tenants:</b>	Diversified income stream from 24 tenants
<b>Net Operating Income:</b>	5-year average: \$968,031 after adjusting for vacancy & structural allowances and financial assumptions contained within this memorandum
<b>Asking Price:</b>	No Asking Price



# Executive Summary (Continued)

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<b>Parking Area:</b>	205 paved stalls
<b>Building Age:</b>	1992/1993
<b>Zoning:</b>	C3 – Community Commercial – allowing for a multitude of office and retail uses
<b>Est. Site Coverage:</b>	Approximately 31%
<b>Legal Address &amp; PID:</b>	Lot B, Section 20, Township 26, Plan 16186, O.D.Y.D. except plan KAP49728   008-688-575
<b>Environmental:</b>	Full remediation was complete prior to construction of existing buildings



# Retail / Office Building Summary

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<b>Construction:</b>	1992/1993
<b>Gross Floor Area: (estimate*)</b>	Main: 38,509 sq.ft. / Second: 38,771 sq.ft. / Third 6,063 sq.ft. Total: 83,343 sq.ft.
<b>Net Leasable Area: (estimate*)</b>	Main: 34,704 sq.ft. / Second: 31,767 sq.ft. / Third 4,861 sq.ft. Total: 71,332 sq.ft.
<b>Foundation, walls, roof and interior:</b>	Poured reinforced concrete footings and foundation walls with pre-cast and cast on-site concrete columns. Steel frame, tilt-up concrete panels, R-20 bat insulation, metal fascia, stucco sand-float finish - 46 feet at highest point. 4-ply built-up tar and gravel roof with steel decking, rigid insulation. Interior complete with fire rated gypsum board, paint, good quality, steel framing. Good quality acoustical tile drop ceiling, suspended t-bar with HVAC ducting and predominately florescent lighting.
<b>Roof:</b>	Replaced in 2014: tar and gravel roof over street decking.
<b>Plumbing, electric and HVAC:</b>	Washrooms available from hall entrances on all floors. Handicap partitions and fixtures. Overall average+ quality washrooms. Many individual tenants also have some plumbing and private washrooms installed. Fluorescent lighting, ample power outlets on all floors and adequate for high powered computer systems. Roof-mounted HVAC heat/cool systems for building supply.
<b>Fire Protection:</b>	The building is equipped with a sprinkler system.
<b>Windows/Doors:</b>	Windows are aluminum frame, tempered glass, twin seal, sound reduced, one way reflective glass (good quality). Main entry doors are full glass in aluminum frame, double entry doors at foyer. Other man-doors are solid core metal clad and some are full glass with aluminum frame. Interior hall doors are wood frame of good quality.
<b>Ceilings/Lighting/Flooring:</b>	Acoustic tiles with recessed fluorescent light and HVAC ducting. Common areas on main and second floors have ceramic tile. The interior finishes in the tenant's spaces include commercial grade carpets, hardwood, tile and linoleum. Floors have 3-inch concrete slabs on each floor except main which is 4 inches.
<b>Water Supply:</b>	Municipal

*\* Per measurement service plans as attached*

# Storage Building Summary

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<b>Construction:</b>	1992
<b>Foundation, walls, roof and interior:</b>	Poured reinforced concrete footings and foundation walls on 4inch concrete slab resting on 5 inches of compacted sand. 5 ply-built up tar and gravel roof on ½ plywood sheathing and sloped wood trusses. Walls are painted concrete block with 12' height at front and 10' height at rear.
<b>Doors:</b>	Each unit has an 8-foot high by 16-foot long overhead sectional door with manual operator, one man-door 3-feet by7-feet, steel clad solid core.
<b>Heating/Cooling:</b>	The storage building has no heating/cooling.
<b>Electrical:</b>	The power is suitable for standard lighting and power use.
<b>Upside on Rents:</b>	Market surveys indicate that the current rents are far below market and Kelowna currently has very low vacancy on comparable storage units.

# Site/Lot Improvement Summary

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The site has an 81,400 sf +/- paved lot on the Property. There is approximately 4,000+ lineal feet of 4-inch concrete curbing and 5,100 square feet of landscaping. The landscaped areas have an underground sprinkler system for irrigation and includes many assorted plants. There are flood lights on steel poles. The advertising signage is on double pylon sign with 8" x 8" posts approximately 20 feet in height set on concrete bases. There are also refuse bills at the north corner of the lot at the junction with the easement road. The platforms are concrete pads.



# Kelowna Community



**Community:** Kelowna is situated 457 km from Vancouver and 612 km from Calgary and serves as the regional centre for the Okanagan with a trading area which draws from Penticton, Vernon, Armstrong, Peachland, Summerland, Osoyoos, Oliver and Merritt.

The population of the Central Okanagan Regional District in 2016 was estimated at 198,344 of which 127,500 reside in the City of Kelowna. Kelowna is equipped with an International Airport that serves over 1.73 million passengers a year offering 66 daily non-stop flights to eight of the largest North American gateway airports. It is the 10<sup>th</sup> busiest airport in Canada. Kelowna's hospital has recently had a major overhaul and is now the largest and most comprehensive in the southern interior of BC. Kelowna is also home to UBC Okanagan which opened its doors in 2005 and accommodates 8,300 students and faculty per year. It has an approximate economic impact of \$1.5 billion per year. UBCO has contributed \$400 million in new construction since 2005. Kelowna is currently enjoying a very low employment rate as noted below.

The City of Kelowna is experiencing a growth cycle that is being fueled by business and residential expansion. 1634 Harvey Avenue occupies a location in a growing commercial node. The project is in close proximity the Landmark Centre Office Park Development, which has helped to create an office node along Harvey Avenue. More economic information is available by clicking on the following link: [http://www.investkelowna.com/application/files/8115/0108/7708/Economic\\_Indicators\\_Single\\_-\\_Q2\\_2017.pdf](http://www.investkelowna.com/application/files/8115/0108/7708/Economic_Indicators_Single_-_Q2_2017.pdf)

Indicator	2015	2016
Population	193,939	198,344
Housing Starts	1,280	2,196
Building Permits	\$599 million	\$800 million
Airport Passengers	1.59 million	1.73 million
Unemployment Rate	7.5%	3.5%

# Site Overview

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**Site Location:** The subject property is situated on Kelowna's main highway corridor. The property immediately east of the subject is the Parkinson Recreation Centre which includes outdoor sports fields and indoor recreation activity centres. The property immediately west of and adjacent to the subject is Dakota's Sports Bar and Global Fitness. This property is also adjacent to the north side of the subject property, over which the subject has the benefit of an easement. The property to the west of Global Fitness is the newly constructed Gateway Plaza which is a retail development that features Browns Social House, Floors Now, and Coast Capital Savings. There is also a small commercial strip centre located across Burtch Road to the west of the recently developed Gateway Plaza. Another small commercial strip centre is located immediately across Harvey Avenue (Burtch Gardens). The Jacobson Centre, a retail and office complex, is located at the southeast corner of Burtch Road and Harvey Avenue and a Mohawk station rests just east of the Jacobson Centre. The neighborhood is essentially a vibrant commercial corridor and properties in the vicinity are in high demand as Highway 97 provides substantial traffic flows and visual exposure.

**Services and Easement:** Harvey Avenue is a six-lane highway with additional left and right turn lanes and controlled intersections. Raised medians separate north and south bound traffic. Services available to the subject property include electric power, telephone, television, fibre optic, natural gas, sanitary sewers, municipal water or irrigation and domestic use, storm water drainage, and police and fire protection. There is paved commercial access to and from Harvey Avenue at the southeast corner of the site, paved road ingress and egress at Burtch and on the north via an easement over adjacent lands. Essentially full urban services are available for developments in this area. Easement KF87061 extends from the north property line to Burtch Road. This easement area comprises 0.13 hectares. The easement is for ingress, egress and regress at Burtch Road in favor of the subject property. Further easement information is available by request.



# Financial Return Summary

Year:	Year 1	Year 2	Year 3	Year 4	Year 5	Years 1-5
Starting:	01-Sep-17	01-Sep-18	01-Sep-19	31-Aug-20	31-Aug-21	average
Projected Base Rent	\$984,590	\$999,201	\$1,016,163	\$1,040,034	\$1,073,005	\$1,022,599
Plus Projected Triple Net Recovery	<u>\$518,684</u>	<u>\$522,083</u>	<u>\$530,998</u>	<u>\$542,649</u>	<u>\$556,893</u>	<u>\$534,261</u>
Projected Gross Rent	\$1,503,274	\$1,521,283	\$1,547,160	\$1,582,684	\$1,629,899	\$1,556,860
Less Projected Building Expenses	<u>-\$516,557</u>	<u>-\$532,053</u>	<u>-\$548,015</u>	<u>-\$564,455</u>	<u>-\$581,389</u>	<u>-\$548,494</u>
Projected Net Operating Income	\$986,717	\$989,230	\$999,146	\$1,018,228	\$1,048,510	\$1,008,366
Less Vacancy Allowance	-\$19,734	-\$19,785	-\$19,983	-\$20,365	-\$20,970	-\$20,167
Less Structural Allowance	<u>-\$19,734</u>	<u>-\$19,785</u>	<u>-\$19,983</u>	<u>-\$20,365</u>	<u>-\$20,970</u>	<u>-\$20,167</u>
Projected Adjusted Net Operating Income	\$947,248	\$949,661	\$959,180	\$977,499	\$1,006,570	\$968,031
Cap Rate*	5.4%	5.4%	5.5%	5.6%	5.8%	5.5%
Yield**	9.0%	9.0%	9.2%	9.5%	9.9%	9.3%

## Financial Return Assumption Set

1. Assumed Vacancy Allowance is calculated as 2% of Projected Net Operating Income.
2. Assumed Structural Allowance is calculated as 2% of Projected Net Operating Income.
3. Projected Building Expenses are assumed to increase 3% per year.
4. Existing leases are assumed to renew at 3% annual increases.
5. Projected Building Expenses exclude lease / renewal commissions.
6. Projected Building Expenses include a total property management fee equal to 18% of Total Expenses before Property Management (see following Expense Summary).
7. CAP Rate calculated as Projected Adjusted Net Operating Income divided by the Asking Price.
8. Yield (ie. return on 35% down payment) calculated as (Projected Adjusted Net Operating Income less 3.5% assumed interest on 65% of Asking Price) divided 35% of Asking Price [assumed down payment].

# Okanagan Location Map



# Central Kelowna Location Map



# Legal Map with Approximate Easement Location



## 14.3.1 Purpose

The purpose is to provide a **zone** for the **development** of community commercial centres to serve more than one neighbourhood.

## 14.3.2 Principal Uses

The **principal uses** in this zone are:

- (a) amusement arcades, major
- (b) animal clinics, minor
- (c) breweries and distilleries, minor
- (d) broadcasting studios
- (e) business support services
- (f) child care centre, major
- (g) commercial schools
- (h) community garden
- (i) custom indoor manufacturing
- (j) emergency and protective services
- (k) financial services
- (l) food primary establishment
- (m) gas bars
- (n) government services
- (o) group homes, major
- (p) health services
- (q) hotels
- (r) liquor primary establishment, major (C3lp and C3lp/rls only)
- (s) liquor primary establishment, minor
- (t) motels
- (u) non-accessory parking
- (v) offices
- (w) participant recreation services, indoor
- (x) personal service establishments
- (y) private clubs
- (z) recycled materials drop-off centres
- (aa) religious assemblies
- (bb) retail liquor sales establishment (C3lp and C3lp/rls only)
- (cc) retail stores, convenience
- (dd) retail stores, general
- (ee) service stations, minor
- (ff) spectator entertainment establishments
- (gg) supportive housing
- (hh) temporary parking lot
- (ii) used goods stores
- (jj) utility services, minor impact

## 14.3.3 Secondary Uses

The **secondary uses** in this **zone** are:

- (a) **agriculture, urban**
- (b) **amusement arcades, minor**
- (c) **apartment housing**
- (d) **child care centre, minor**
- (e) **congregate housing**
- (f) **home based businesses, minor**
- (g) **residential security/operator unit**

## 14.3.4 Subdivision Regulations

- (a) The minimum **lot width** is 13.0 m, except it is 40.0 m if there is no **abutting lane**.
- (b) The minimum **lot depth** is 30.0 m.
- (c) The minimum **lot area** is 460 m<sup>2</sup>, except it is 1300 m<sup>2</sup> if there is no **abutting lane**.

## 14.3.5 Development Regulations

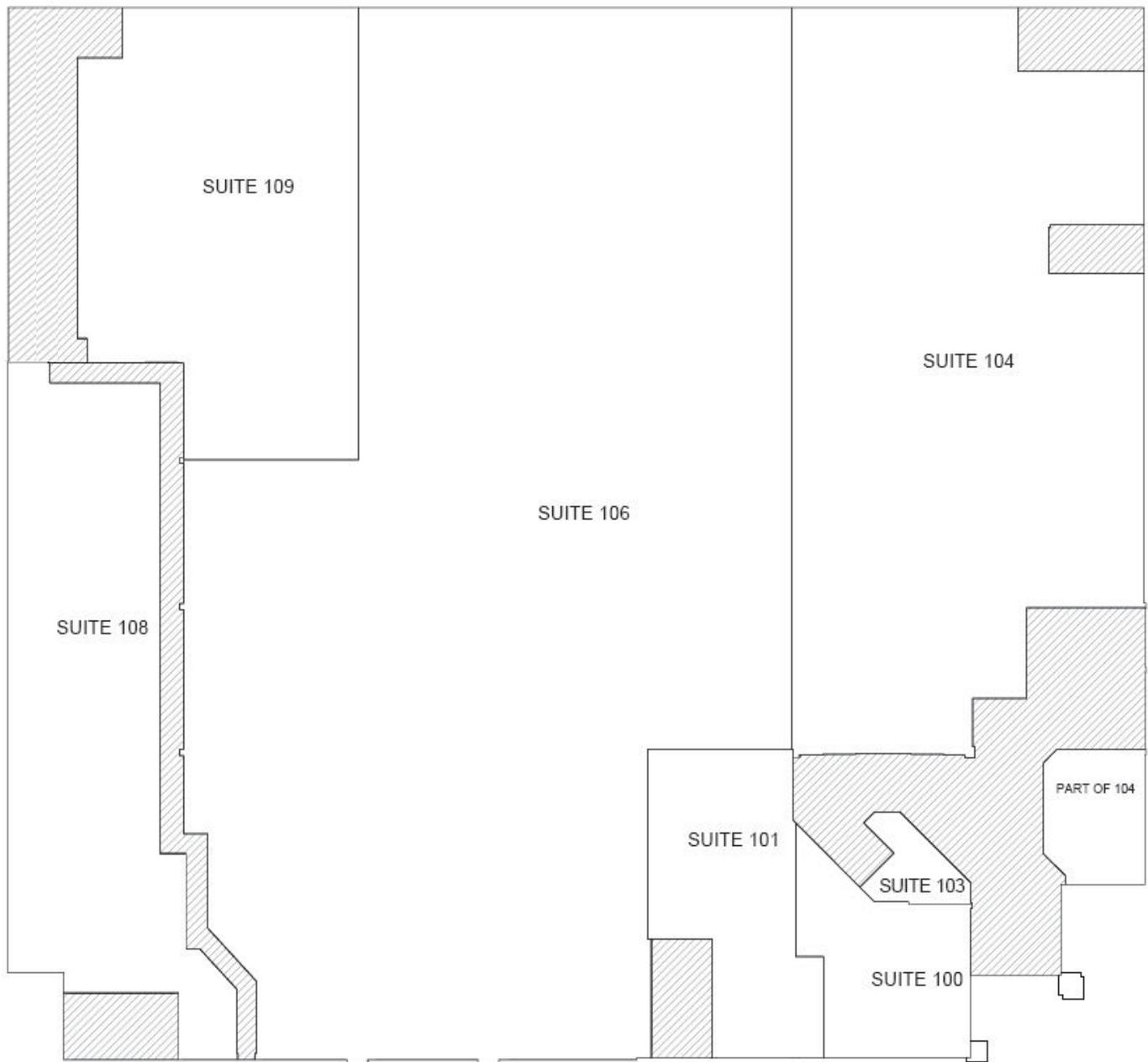
- (a) The maximum commercial **floor area ratio** is 1.0.
- (b) The maximum **site coverage** is 50%.
- (c) The maximum **height** is the lesser of 15 m or 4 **storeys**.
- (d) The minimum **front yard** is 3.0 m.
- (e) The minimum **side yard** is 0.0 m, except it is 2.0 m from a **flanking street** or where the **site** abuts a residential **zone** other than an RU1, RU2, RU3, and RU4 **zone**. In these latter **zones**, the minimum **side yard** is the greater of 4.5 m or half the **height** of the **building**.
- (f) The minimum **rear yard** is 0.0 m, except it is 6.0 m where **abutting** a residential **zone**.

## 14.3.6 Other Regulations

- (a) Apartment housing and **major group homes** are allowed only above the **first storey** and requires access to grade separate from the **commercial uses**.
- (b) A minimum area of 6.0 m<sup>2</sup> of **private open space** shall be provided per **bachelor dwelling** or **group home bedroom**, 10.0 m<sup>2</sup> of **private open space** shall be provided per 1 **bedroom dwelling**, and 15.0 m<sup>2</sup> of **private open space** shall be provided per **dwelling** with more than 1 **bedroom**.
- (c) Financial services shall have a maximum total **gross floor area** of 500 m<sup>2</sup> unless a larger branch of the Financial services establishment is located within the C7 zone.
- (d) In addition to the regulations listed above, other regulations may apply. These include the general **development** regulations of Section 6 (accessory **development**, **yards**, projections into **yards**, accessory **development**, lighting, stream protection, etc.), the **landscaping** and fencing provisions of Section 7, the parking and loading regulations of Section 8, and the specific **use** regulations of Section 9.

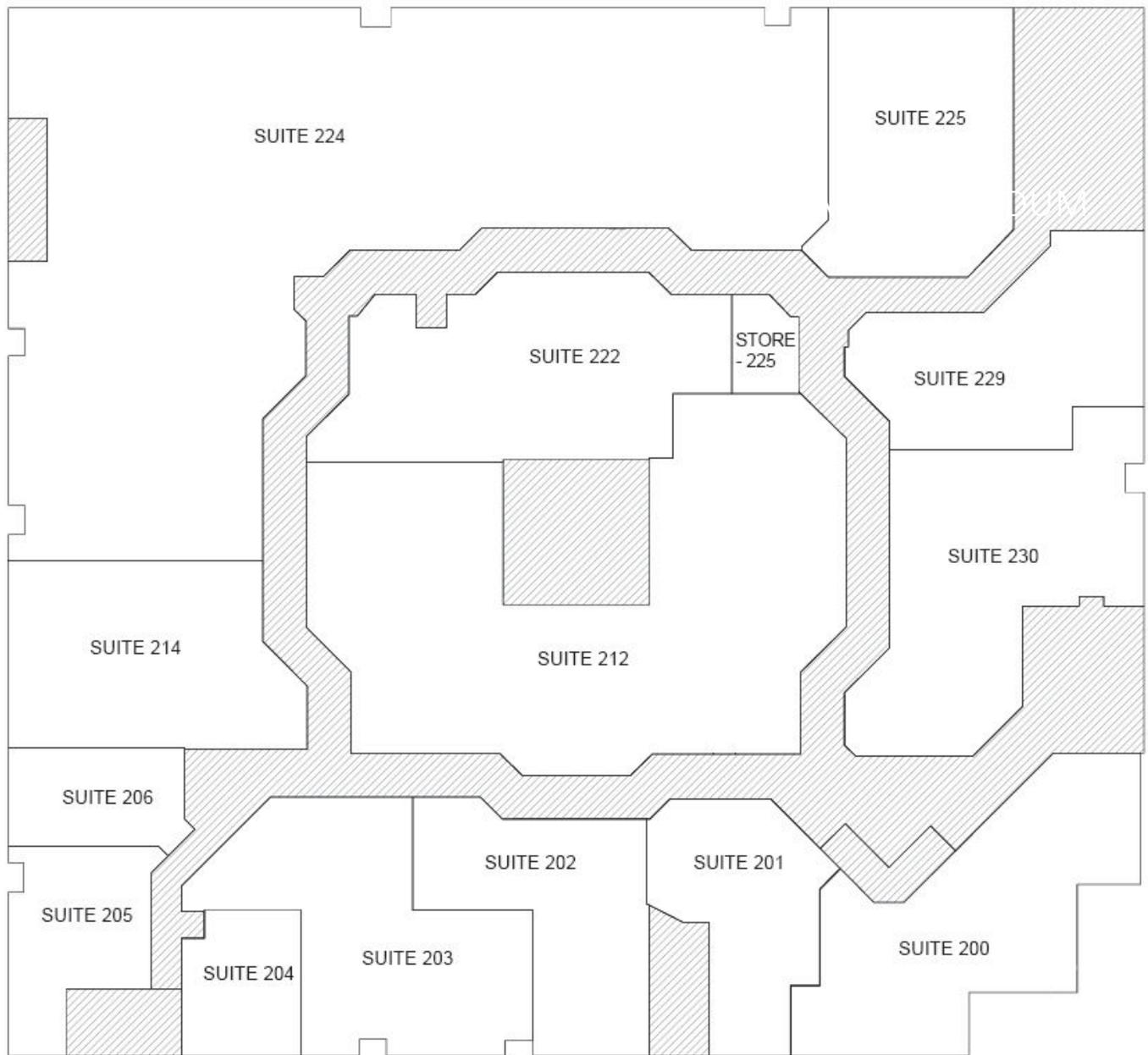
# Approximate Main Floor Plan

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Highway 97N

# Approximate Second Floor Plan



Highway 97N

# Approximate Third Floor Plan

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Highway 97N

# Photo Summary



# Photo Summary

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# Photo Summary

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