

# Memo



**Date:** September 9, 2009  
**File:** 0870-20  
**To:** City Manager  
**From:** Director, Real Estate & Building Services  
**Subject:** KSAN Lease of Knowles House  
Report Prepared by: Ron Forbes, Property Manager

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## **Recommendation:**

THAT City Council approve the cancellation, without penalty, of the lease between the City and the Kelowna South-Central Association of Neighbourhoods for the Knowles House located at 865 Bernard Avenue;

ADD THAT Council direct staff to negotiate a lease with the Kelowna Alzheimer's Society for the continued use of the Knowles House.

## **Background:**

The City purchased the Knowles House as part of the property assembly for the development of the Knowles Park.

The Kelowna South-Central Association of Neighbourhoods (KSAN) approached the City with a proposal to lease the heritage building and restore it. The goal of KSAN was to renovate the front portion of the building and lease the space to cover operating costs as well as provide funds towards the redevelopment of the rear section of the building.

KSAN was successful in getting a lease and a loan from the City and restoring the front of the building. It is currently subleased to the Alzheimer's Society as office and meeting space. The revenue received from this rental was used to pay off the loan. Under the current lease 50% of the net revenue is shared with the City.

In 2008 KSAN advised the City that they would like to move forward with the restoration of the rear portion of the house with the goal of turning it into an affordable housing unit / Knowles Park caretaker suite. An evaluation of the property was done by staff and a number of deficiencies were noted including fire separation issues, rotting foundation, inadequate power, as well as chimney and roof issues. Staff recommended that KSAN not

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move forward with renovations, rather the additions that were put onto the house in years past be removed and the house be restored to its original form and character. This recommendation was supported by a Heritage Consultant as the appropriate action.

At the same time the property was re-assessed by BC Assessment and the taxable status changed to commercial. In addition, it was determined that because KASAN is renting the property they do not qualify for a permissive tax exemption under the City's Policies. A combination of these factors resulted in a net operating loss as long as the society holds the lease with the City.

The reason the Society entered into the original lease was to restore the house and that restoration has now been completed. Due to the financial implications of the sub-leasing arrangement and recent taxation issues it is no longer in KASAN's best interests to continue with the lease.

Should Council approve the recommendation, the City will re-lease the front of the house to the current Tenant. The tenant currently pays \$750 / month.

**FINANCIAL/BUDGETARY CONSIDERATIONS:**

The current Tenant has applied for a Permissive Tax Exemption.

The current Tenant may qualify for non-market rent according to Council Policy No. 347

**INTERNAL CIRCULATION TO:**

Director, Infrastructure Planning  
Revenue Manager

**EXTERNAL AGENCY/PUBLIC COMMENTS:**

Kelowna South-Central Association of Neighbourhoods

**ALTERNATE RECOMMENDATION:**

THAT City Council not approve the cancellation of the lease between the City and the Kelowna South-Central Association of Neighbourhoods for the Knowles House.

Considerations that were not applicable to this report:

**LEGAL/STATUTORY AUTHORITY:**

**LEGAL/STATUTORY PROCEDURAL REQUIREMENTS:**

**EXISTING POLICY:**

**PERSONNEL IMPLICATIONS:**

**TECHNICAL REQUIREMENTS:**

**COMMUNICATIONS CONSIDERATIONS:**

In light of the above, the Real Estate & Building Services Department requests Council's support of this matter.



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Doug Gilchrist, RI(BC), PMP  
Director, Real Estate & Building Services

Approved for Inclusion:



John Vos, General Manager, Community Services

cc: General Manager, Community Services

