



SUBJECT	UBC Downtown Kelowna Project Lease and Tenant Improvements Board 2 + 3 Conditional
SUBMITTED TO	Property Committee
MEETING DATE	November 18, 2022
SESSION	Recommended session criteria from Board Meetings Policy: OPEN
REQUEST	<p>APPROVAL REQUESTED</p> <p>IT IS HEREBY RESOLVED that the Property Committee recommends that the Board of Governors grant conditional* BOARD 2 + 3 approval for the UBC Downtown Kelowna Project as follows:</p> <ul style="list-style-type: none"> i. approval of final Tenant Improvement capital budget of \$54,100,000, to be funded by a one-time capital payment of \$30,000,000 and the remainder included in and amortized over the length of the lease (25 years); ii. approval of annual lease payments of \$4,000,000 and approximate operating costs as set out in this submission; iii. approval of final funding sources and financing as set out in this submission; iv. authorization to sign lease agreement and to proceed to award Tenant Improvement construction contracts; and, v. approval of funding release of \$30,000,000. <p>* Conditional on construction tenders being received at or below budget based on 80% of tenders and on UBCPT obtaining financing for the base building.</p>
LEAD EXECUTIVE	Lesley Cormack, Deputy Vice-Chancellor and Principal, UBC Okanagan
SUPPORTED BY	<p>Rehan Sadiq, Provost and Vice-President Academic, UBC Okanagan</p> <p>John Metras, Interim Vice-President Operations</p> <p>Yale Loh, Interim Vice-President Finance</p> <p>Philip Barker, Vice-Principal and AVP Research & Innovation, UBC Okanagan</p> <p>Rob Einarson, Associate Vice-President Finance & Operations, UBC Okanagan</p> <p>Jennifer Sanguinetti, Managing Director, Infrastructure Development</p> <p>Michael White, Associate Vice-President Campus + Community Planning</p> <p>Aubrey Kelly, President & CEO, UBC Properties Trust</p>

PRIOR SUBMISSIONS

The subject matter of this submission has been considered previously by the Property Committee on the following occasions:

1. [December 2, 2021](#) (OPEN SESSION)
Action/Follow up: Authorization to proceed to working drawings and tender of tenant improvements
2. [February 3, 2021](#) (OPEN SESSION) – Information Update
3. [November 2019](#) Information Update (CLOSED SESSION)
Action/Follow up:
 - Support UBC Properties Trust in completing a land deal for a UBC presence in downtown Kelowna with space made available for academic expansion and UBC affiliated rental housing;
 - Direct UBC staff to work with UBC Properties Trust to coordinate planning for the academic component of the downtown site with concurrent UBC capital, operating budget and space planning processes.

EXECUTIVE SUMMARY

In accordance with the [Capital Projects Policy](#), this approval request for UBC Downtown Kelowna Project Lease and Tenant Improvements is provided as part of the project management process for construction projects over \$5 million. The Board of Governors has delegated to the Property Committee the authority to make decisions on its behalf for construction projects of between \$5 million and \$20 million. The aggregate estimated value of UBC Downtown Kelowna Project is \$54.1 million for Tenant Improvements, plus operating costs.

Overall Project Status

The City of Kelowna Development Permit process is complete for this UBC Properties Trust (UBCPT)-owned building, and the City has approved the rezoning and subdivision of the site along with all associated approvals (servicing agreement, Ministry of Transport and Infrastructure agreement, etc.). During this process and at the request of the City, the total building height was increased to 43 stories. As previously reported, UBC will occupy the lower eight stories, and the two floors above this will be leased out commercially in the near term but are considered expansion space for future academic needs. A residential tower will occupy the remaining floors. The overall project will be presented for approval at the December 2022 UBCPT Board of Directors meeting.

The existing building that occupied the site has been demolished, and 75% of the overall building project (including the UBC academic tenant improvement package) has been tendered on budget including excavation, structure, envelope, mechanical and electrical. Finishing packages (ceilings, flooring, painting, millwork, etc.) are being tendered in late fall 2022, with tender results expected before the end of December. Construction of the base building is targeted to start in February 2023.

Academic Tenant Improvement Project

A robust design process with the multiple stakeholder groups has led to a design and distribution of spaces which will meet the needs of the academic units and facilitate inter-departmental engagement and interaction with the larger community. A cultural and Indigenous sub-committee is advising the project team on incorporation of elements to reflect the regional culture, and the team is currently developing design ideas around the Sylix Okanagan Nation stories of the four Food Chiefs.

The net area of the eight floors to be occupied by UBC academic functions has increased from 4,940 net square metres to 5,816 net square metres (62,605 net square feet). The increase reflects a process of program refinement and the addition of a 75-seat classroom. The total academic gross rentable area has increased from 105,000 to 116,000 square feet. The high net-to-gross ratio is due to provision of an atrium at grade for UBC and community gathering, crush space for classrooms, and higher than average space required for vertical circulation to integrate the eight academic floors into a cohesive whole. In typical commercial buildings, the corridors, vertical circulation and washrooms are minimal based on Building Code and assume separate tenants in distinct suites. In contrast, the new building has been designed with open and accessible spaces for large numbers of students and the public to gather, socialize, and collaborate.

Program Component	Board 1 Net Area (Square Metres)	Board 2+3 Net Area (Square Metres)	Board 2+3 Gross Area (Sq Feet)
Learning Spaces	632	954	
Faculty of Management Public Engagement Learning Suite	310	346	
Faculty of Health & Social Development			
School of Nursing	1,898	2,344	
School of Social Work	492	495	
School of Health & Exercise Sciences	259	298	
Faculty of Creative & Critical Studies and Faculty of Engineering			
Gallery, Makerspace & Masters of Design Lab	184	403	
Design, Innovation, Creativity & Entrepreneurship	187	Incl above	
Office of VP Research			
Research Institute Spaces	97	183	
e@UBC	86	0	
UBCO Executive Office (shared meeting and flex office space)	83	186	
UBC Services and Academic Support Space	292	287	
UBC Unassigned Academic Space	100	0	
Building Support	320	320	
Total Net Area (Square Metres)	4,940	5,816	
Gross-Up, including community gathering space at grade		4,960	
Total Gross Leasable Area (Square Metres/ Square Feet)		10,777	116,000

Capital, Lease and Operating Budgets

UBC Okanagan and UBC Properties Trust are working together to finalize capital, lease and operating budgets. Construction cost escalation since Board 1 has impacted the capital budgets for the overall UBCPT project and for the UBC academic Tenant Improvement project. UBCPT’s high-level capital budget for the UBC academic space has increased from \$93.6 million to \$117.5 million. This includes \$54.1 million for Tenant Improvements (\$4.1 million increase), \$35 million for base building (\$10 million increase), \$25.4 million for allocated underground parking (\$9.8 million increase) and \$3 million for a portion of the land cost. The proposed UBC up-front capital tenant improvement payment from UBCO Central Capital Reserves and the UBCO Excellence Fund has increased from \$27 million to \$30 million. The remaining \$24.1 million to complete the Tenant Improvements will be included in a fixed annual lease payment of \$4 million to be funded from the UBCO Excellence Fund (unchanged from Board 1). The development permit has been issued to permit a 43-story residential tower that will include 476 university-oriented market rental units above the academic campus. The mixed-use project is projected to generate a blended 5% rate of return, which translates into a yearly dividend of \$1.7 million after expenses. UBCPT will obtain 3rd party financing with an anticipated fixed rate of 4.5% amortized over 25 years.

Capital Cost – Tenant Improvements	\$
One-time Tenant Improvement (TI) Payment	\$30,000,000
TI cost included in annual lease payment shown below	\$24,100,000
Total Estimated Capital Cost	\$54,100,000

Annual Lease and Operating Costs	\$ Minimum	\$ Maximum
Annual Basic Lease Payment (fixed over 25 years)	\$4,000,000	\$4,000,000
Operating Costs (utilities, custodial, taxes) ¹	\$1,160,000	\$1,624,000
Common Areas Maintenance (CAM) (e.g. parkade, snow clearing)	TBD	TBD
Total Annual Costs	\$5,160,000 + CAM	\$5,624,000 + CAM

¹Based on \$10-\$14 per gross square foot and a gross area of 116,000 square feet

The fixed annual lease rate is based on the current estimated gross area and a lease rate of \$20.34/sq ft, plus the remaining Tenant Improvement payment amortized over the life of the lease. The proposed lease rate is less than the \$22-\$27/sq ft average Kelowna commercial space lease rate, even though finishes and systems in the building will be institutional rather than typical commercial grade, selected for long-term durability to support operational excellence, ease of maintenance, and sustainability.

Funding Sources

Component	Funding Source	\$ Amount
One-time Tenant Improvement Payment	UBCO Central Capital Reserves and UBCO Excellence Fund	\$30,000,000
Annual Lease Payment (fixed over 25 years)	UBCO Excellence Fund	\$4,000,000
Annual Operating Costs	UBCO Operating Budget	Min. \$1,160,000 + CAM

Sustainability Objectives

The Downtown Kelowna building is targeting LEED Gold Certification and will adhere to sustainability standards in place on the UBC Okanagan campus, and best practices in environmental construction. Building design incorporates cost-effective measures to reduce operational energy and carbon in accordance with Step 3 criteria of BC’s Energy Step Code requirements and UBC’s climate imperatives. Health and well-being principles have informed design approaches that encourage sustainable modes of transportation, including bike parking and end-of-trip facilities. The project site is well served by transit, with close adjacency to the Okanagan Rail Trail, supporting a reduced target in parking standards and associated environmental benefits.

Risks

Infrastructure Development and UBC Properties Trust advise that the current construction market is extremely volatile. The team will continue to develop options and mitigation strategies through tender and construction to ensure that the project aligns with the approved budget.

Schedule

The base building design is complete and tender is in progress. Construction is expected to begin in February 2023. The schedule below has been developed with UBC Properties Trust:

Milestones	Target Date
BOG Approval for UBCPT to enter into land deal and for UBC to enter into planning for academic space	November 2019
Executive Progress Update	December 2020
BOG Progress Update	February 2021
Exec Submission for Lease and Tenant Improvements	October 2021
BOG Preliminary Approval for Lease and Tenant Improvements	December 2021
BOG Final Approval for Lease and Tenant Improvements	December 2022
Construction	February 2023
Academic Space Completion	August 2026

APPENDICES

1. Context Location Map
2. Tenant Improvements Capital Budget

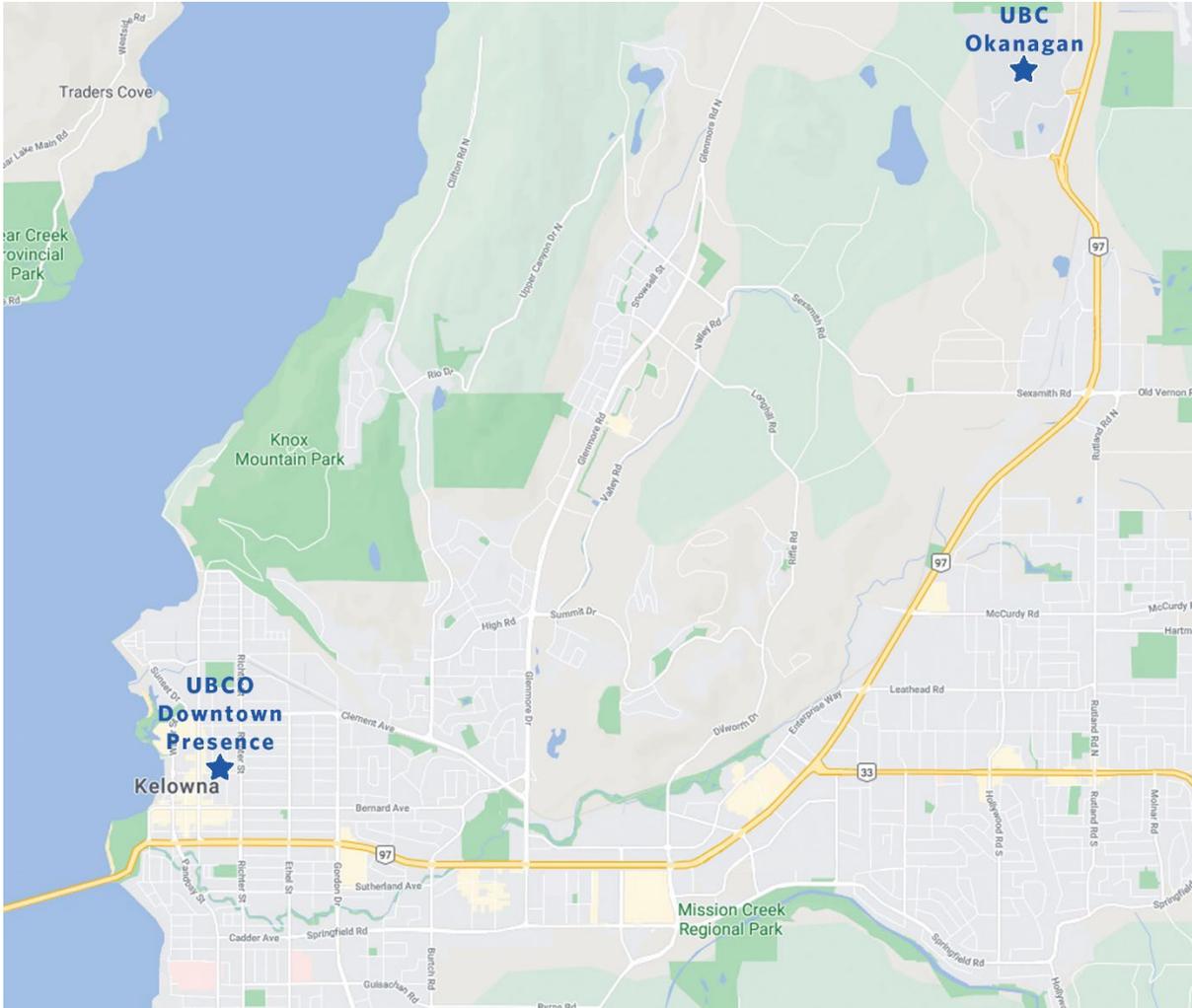
PRESENTATIONS

1. UBC Downtown Kelowna Project – Lease Approval; Board 2+3 Approval Request

SUPPLEMENTAL MATERIALS (optional reading for Governors)

1. Design Images

Appendix 1 – Context Location Map



Appendix 2 – Tenant Improvements Capital Budget

Project Capital Cost Breakdown	\$
Construction Costs	
Construction	30,125,000
Contingency	1,506,000
Subtotal Construction	31,631,000
Cash Allowances	
FF+E	2,200,000
UBCIT	250,000
Secure Access	100,000
Signage/Wayfinding/Branding/Moving	250,000
Audio Visual	2,700,000
Simulation Lab Equipment/AV	1,500,000
Subtotal Cash Allowances	7,000,000
Soft Costs	
Consultants	6,282,000
Insurance/Legal	490,000
Preconstruction/Permits	3,000,000
Subtotal Soft Costs	9,772,000
Building Subtotal	48,403,000
Project Management	2,421,000
GST	847,000
Building Total	51,671,000
Escalation Contingency	1,898,000
Construction Period Financing	0
Retained Risk	527,000
PROJECT TOTAL	54,096,000
<i>Project Area (Gross Square Feet)</i>	<i>116,000</i>
<i>Cost Per Square Foot (\$/sf)</i>	<i>\$466</i>

UBC Downtown Kelowna Project – Lease Approval Board 2+3 Approval Request

November 18, 2022

Jennifer Sanguinetti
Managing Director, Infrastructure Development



Introduction and summary



Since initial approval given in Dec 2021:

- Design work mostly complete & 75% tendered.
Construction commencing Feb 2023
- Academic space increased to accommodate additional 75 seat classroom (total 116k gsf)
- Development Permit complete

Additional details



Tenant fit-out and lease costs:

- Tenant fit-out of leased space is est at \$54.1m, split as \$30m up front/\$24.1m amortized as part of annual lease payment
- Base lease rate (\$20.34/sq ft) is comparable to other downtown properties
- Annual lease payment is \$4 million plus op costs. CAM is still being negotiated.

Renderings



Exterior view & Academic Entrance



Interior view – Atrium Stairs

Discussion and decision points



Conditional* Board 2+3 approval of DTK project:

1. approval of final Tenant Improvement capital budget of \$54,100,000
2. Preliminary TI budget of \$50 million;
3. Lease payments of \$4 million/yr + Op Costs
4. Funding sources
5. Authorization to proceed with working drawings and tender of TI works

*Conditional on construction tenders being received at or below budget based on 80% of tenders & UBCPT obtaining financing for the base building