

# Report to Council



**Date:** October 3, 2022  
**To:** Council  
**From:** City Manager  
**Subject:** Lease – PJS Real Estate Holdings Ltd.  
**Department:** Kelowna International Airport and Real Estate

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## **Recommendation:**

THAT Council receives for information the report from Kelowna International Airport and Real Estate dated October 3, 2022, with respect to the lease with PJS Real Estate Holdings Ltd.

## **Purpose:**

To provide Council with information on the lease with PJS Real Estate Holdings Ltd.

## **Background:**

In 2018, a subdivision of five lots was registered for City of Kelowna (the City) owned land between Highway 97 and Airport Way, and Airport Way and Old Vernon Road. This subdivision was created to lease to external third parties in order to generate additional revenues for the City. These lands are within Comprehensive Development Zone 12 – Airport and are referred to as the West Lands.

PJS Real Estate Holdings Ltd. (PJS) wishes to lease 6280 Lapointe Drive as outlined in red on the sketch plan attached as Appendix A (the Property) in order to build industrial warehouses. PJS is a progressive, family-owned property development and management company that has been in operation for over three decades. PJS owns, develops, and manages over 2 million square feet of high-quality, award-winning, industrial properties in Calgary, Kelowna, and Phoenix Arizona, servicing the needs of over 200 tenants. PJS is committed to providing an exceptional tenant-landlord relationship.

The West Lands were initially purchased with funds from the Land Sales Reserve. Kelowna International Airport (the Airport) funded the development costs for the West Lands from the Airport Groundside Reserve. As a result, if leased, the Airport would receive 100% of lease revenues generated from the West Lands until such time that the development costs are fully recovered. Subsequently, the Airport would receive 20% of the lease revenues, and the Land Sales Reserve would receive 80% of the lease revenues generated from the West Lands.

Lot #	Leased?	Lessee	Commencement Date	Annual Rent
1	No			
2	Yes	PJS Real Estate Holdings Ltd.	October 1, 2022	\$72,418.56 (\$0.81/ft <sup>2</sup> /year prior to grading rent reduction) + Fair Market Value adjustments
3	Yes	Ironman Properties	August 31, 2018	\$58,839.00 (\$0.71/ft <sup>2</sup> /year prior to grading rent reduction) + 2%/year
4 & 5	Yes	KF Centre for Excellence	November 1, 2020	\$109,279.40 (\$0.8035/ft <sup>2</sup> /year prior to grading and non-profit rent reduction) + 2%/year

*Previous Council Resolution*

Resolution	Date
<p>That Council approves the lease with PJS Real Estate Holdings Ltd. attached as Appendix B to the report of the Kelowna International Airport and Real Estate departments dated September 26, 2022;</p> <p>AND THAT the 2022 Financial Plan be amended to include the annual revenue associated with the PJS Real Estate Holdings Ltd. lease;</p> <p>AND THAT the Manager, Property Management be authorized to execute all documents necessary to complete and maintain this transaction, including renewals;</p> <p>AND FURTHER THAT Council direct Kelowna International Airport and Real Estate to bring forward details of the lease with PJS Real Estate Holdings Ltd. to a regular PM Council meeting.</p>	September 26, 2022

**Discussion:**

*The Development*

There is currently a 0% vacancy rate at the Airport for both office and industrial space, and current and future tenants are looking for new offices due to growth and/or the future demolition of Cargo One for the Airport's Combined Operations Building. The proposed development would create leasable office and industrial space at the Airport, improving operational efficiencies and reducing congestion on roads.

### Advertisement of the Lands

As the servicing of the West Lands was being completed, the Airport received inquiries of interest from various companies. In order to ensure public notification of lots for lease, an advertisement was placed in the City in Action ads for a land lease opportunity on May 12, 2017. This advertisement provided information on the lots available for lease and requested that submissions be provided to the Strategic Land Development Manager by May 23, 2017. All parties that had previously expressed an interest, were provided with this information.

As there were lots still available for lease in March 2019, the Senior Airport Finance and Corporate Services Manager emailed all parties that had previously expressed an interest to see if any parties had renewed interest.

### Fair Market Value of the West Lands

A third-party land lease rental valuation was commissioned to determine the market value of the lands and was used to calculate the corresponding rent as outlined below.

### Terms of the Proposed Sublease

<b>Sublease Component</b>	<b>Description</b>
Tenure Type	Land lease for the purpose of constructing industrial warehouses.
Land Lease Area	89,406 square feet.
Term	60 years, commencing on October 1, 2022.
Occupation Date	The earlier of the date an occupancy permit has been issued for any part of 6280 Lapointe Drive, and October 1, 2024.
Renewal Consideration	Four 10-year options to extend.
Rent	\$72,418.56 per annum, adjusted to fair market value every five-years (not to be less than the prior year's rent, or exceed 10%), and adjusted to fair market value at 40 years. Rent will commence on the Occupation Date.
Rent Reduction	The grading costs incurred by PJS, not to exceed \$220,000, will be amortized over the 60-year term as a rent reduction.
Airport Maintenance Charge	\$2,985.25 per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982).
Lease Costs	Tenant to pay all costs.
Site Condition on Expiry	Land, structures, and any improvements revert to the City upon expiry.

### **Conclusion:**

The Airport and Real Estate recommend Council receives this report for information.

### **Internal Circulation:**

Financial Services  
Real Estate

Communications

**Considerations applicable to this report:**

***Legal/Statutory Authority:***

Notice of disposition of City-owned land was published pursuant to Section 26 of the *Community Charter*.

***Financial/Budgetary Considerations:***

Rent will be paid at an annual rate of \$72,419, adjusted to fair market value every five years, with any increase not to be less than the prior year's rent or greater than 10%, and adjusted to fair market value at 40 years. The Airport Maintenance Charge will be paid at an annual rate of \$2,985.25, increasing at 2% per annum. If approved, the revenue associated with the lease would be incorporated in the 2022 Financial Plan.

**Considerations not applicable to this report:**

***Legal/Statutory Procedural Requirements:***

***Existing Policy:***

***External Agency/Public Comments:***

***Communications Comments:***

Submitted by:

S. Dyrdal, Senior Airport Finance and Corporate Services Manager

Approved for inclusion:

S.S.

S. Samaddar, Airport Director

cc:

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