

Objective

Given that market rents in Kelowna have and are increasing at much faster rates than household incomes have been growing, the intent of this housing agreements is to create a pool of units in the Muse development whose rents are tied to household income, providing a degree of insulation from market rent increases.

Summary

A commitment of twenty-six units has been offered by the developer. These units will include standard and deluxe studio units and will be provided for a ten-year period at rents set fixed to a percentage annual household income for Kelowna. The discount associated with this calculation will vary as rents and incomes fluctuate over time and is discussed in further detail below.

Context

Muse is located at 350 Doyle Avenue, in the heart of Downtown Kelowna's Cultural District. It is immediately adjacent to the Okanagan Centre for Innovation, numerous City of Kelowna facilities and within one block of the lakefront.

The project is envisioned to contribute to the vibrance of the downtown core, bringing over three hundred new residents into the middle of the cultural district and creating a destination shopping and dining district in conjunction with new municipal amenities.



These substantial community benefits include the extension of the Art Walk from Smith Avenue to Doyle Avenue, which will create an exciting new outdoor community space, the construction of dedicated 6,000 SF indoor community space that will be managed by the City as a Creative Hub, housing three community arts groups for the term of the project with the cost of base rent being the responsibility of the developer for the term of the long-term land lease (80 years initial term) and completion of streetscape improvements along the Doyle Avenue frontage to Water Street.

The building itself will be a modern concrete high-rise tower structure, requiring deep pile foundations, structured parking and

advanced life-safety systems. It will be clad with attractive, durable finishes appropriate for its height and intended longevity. Building plumbing, heating and cooling and electrical systems will be designed to provide high efficiency, meeting LEED Certified accreditation requirements.

Finishes will be condominium-grade and substantial indoor and outdoor amenities will included for the enjoyment of building tenants.

Construction costs for this build form are a 50-70% premium over the most prevalent primary rental product in the Kelowna area (surface-parked traditional wood-framed construction above a single-level underground parking garages). As is common with high-rise rentals and as a result of the high cost of the project and lot size, apartment sizes tend to be smaller than both older rental stock and those projects having lower costs.

Given that this project will be constructed at a significant cost premium to traditional rental build forms and includes many millions of dollars in included community programs, rents are necessarily positioned at the higher end of the market rent spectrum to enable project viability.



Tenant Profile

Target tenants will include young professionals, students and others who desire a lifestyle that is focused on an urban setting or proximity to Kelowna's ever-evolving Downtown amenities. Based on our experience with smaller rental units located in urban and desirable locations, we will tend to see unit turn over more frequently than might be the case in other locations where units are larger and rents lower; many tenants will be living in the building as part of broader plan in their life (going to school, medical residency, building or renovating a house, in town working, etc).

Unit Types

The 26 units that will be provided as attainable rentals comprise eighteen standard studio and eight deluxe studio units.

Market Rents

Market rentals rates for a specific rental typology are determined by finding comparable rental offerings. In the case of Muse, comparable rentals would include rental products that include:

- Central Downtown location
- New concrete high-rise construction
- Primary rental units
- Condo-grade finishes, in-suite laundry
- Views to mountains and lake
- Desirable indoor amenities (co-working spaces, gym/fitness, etc)
- Quality outdoor amenities (outdoor lounges, living, cooking areas, etc)
- Sustainable building systems and features
- Pet friendly



- Available secure parking

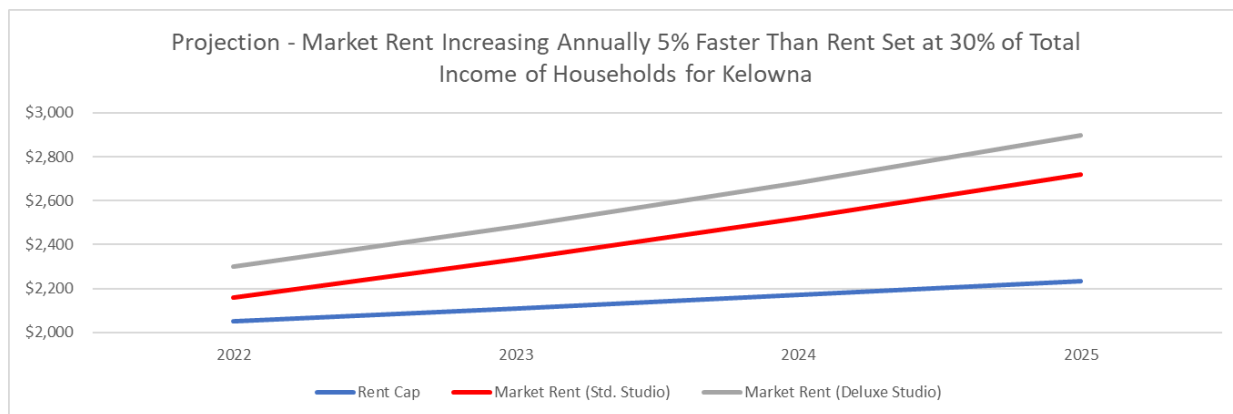
While comparable primary rentals are scarce, there are a number of recent and proposed downtown condominium projects containing secondary rental units. Based on comparables and analysis of the Muse rental offerings, average rents for Muse standard studio and deluxe studio suites today would be \$2,160 and \$2,300, respectively. The units in Muse falling outside of the housing agreement will be rented at market rates applicable at the time of occupancy in approximately 2025.

Income-Based Rent Cap

The agreed rent cap for the attainable units, regardless of unit type, is thirty percent of the Total Income of Households for the City of Kelowna. This figure is published every five years when the Statistics Canada Census of Population becomes available. The recent census provided a Total Income of Households figure of \$82,000 for Kelowna, indicating a rent cap of \$2,050 per month. Incomes in Kelowna have long been subject to a “Sunshine Tax” and have tracked behind larger municipalities both on a macro level (as reflected in the Total Income of Households Figures) and as experienced individually by residents, who often get paid less than their counterparts performing similar roles in the Metro Vancouver area.

Meanwhile, rents are escalating at increasing rates, with 20% increases seen across all unit types in approximately the last year alone. These increases are driven by numerous factors, not least of which is a historic undersupply of primary rental product which creates a shortage and high demand for all unit types.

Even conservative estimates continue to see increases to household income trailing well behind the rent escalations in Kelowna until many thousand more rental units are brought to market and rents begin to stabilize.



While the project is a private venture and not an affordable rental housing project of the type developed by BC Housing and benefiting from government subsidies, twenty-six units will be maintained within the rental cap. The attainable units will initially be rented at a modest discount to projected rents; with market rents continuing to escalate rapidly, the discount would grow substantially relative to incomes over time.

Term

The housing agreement requires that twenty-six units remain below the rental cap for a term of ten years following initial occupancy of the project.

From: Greg Appelt <gappelt@Appeltproperties.com>

Sent: Friday, July 22, 2022 8:10 AM

To: mayorandcouncil <mayorandcouncil@kelowna.ca>; Gail Given <ggiven@kelowna.ca>; 'Luke Stack' <luke@societyofhope.org>; Maxine DeHart <mdehart@kelowna.ca>; Brad Sieben <BSieben@kelowna.ca>; Charlie Hodge <CHodge@kelowna.ca>; Loyal Wooldridge <LWooldridge@kelowna.ca>; Mohini Singh <msingh@kelowna.ca>; Ryan Donn <RDonn@kelowna.ca>

Subject: 350 Doyle Affordable Housing

CAUTION: External email - Check before you click!

Good Morning Mayor Basran and City of Kelowna Council Members,

As we are all very much aware, Kelowna is in the midst of a housing crisis. Housing prices are at record highs, interest rates are rising and housing affordability is at an all time low. Even more concerning is the rental housing climate. Vacancy rates in Kelowna are at 0.6%, Kelowna's population continues to grow at an incredible pace (fastest growing city in Canada in 2022), many (70%) of these new residents require rental housing and there remains a significant deficit in rental housing supply when compared to demand. With the increasing cost burdens to own a home in Kelowna and a shortfall in supply, there will be even greater pressure on rental product. As with other complex issues facing society, the solution is multifactorial but certainly a major component of the fix is to increase supply. Focusing in further on Kelowna's downtown core, there are even less permanent rental options.

On Tuesday night, we will bring forward, for your consideration, a 259 unit purpose-built rental apartment building in the downtown core which will help put a dent in the rental housing issue. During my meetings with council members over the last few days we had the opportunity to discuss the housing crisis and affordability in the context of our development at 350 Doyle (Muse). When we leased this land from the city it was not our intent nor was it the city's requirement to add an affordable rental component. That said, after deep consideration, ***we are committing to providing 10% (26 units) of the 259 units as affordable***. What that means is that rent on the units designated as affordable will not exceed 30% of the median household income for Kelowna. We will commit to doing this for a 10-year term. A formalized supplementary agreement will be drafted by the city and come into effect prior to building permit issuance.

Should you have any questions related to our affordability commitment or the project in general in advance of July 26th, please don't hesitate to reach out directly to me at my number below.

Sincerely,
Greg



Greg Appelt, MD

President

Appelt PROPERTIES

[250-718-4110](tel:250-718-4110)

gappelt@appeltproperties.com

www.appeltproperties.com

Toronto | Kelowna