

Report to Council



Date: 12/05/2016
File: 1125-01-013
To: City Manager
From: J. Säufferer, Manager, Real Estate Services
Subject: Proposed Partnership: Surtees Heritage Property Adaptive Re-Use
Author: B. Walker, Property Officer II

Recommendation:

THAT Council receives, for information, the report of the Manager, Real Estate Services dated December 5, 2016, with respect to the potential partnership with Worman Commercial for the adaptive re-use of the Surtees Property in a manner that meets the City's heritage and park objectives for the site;

AND THAT Council authorize staff to enter into a Memorandum of Understanding with Worman Commercial in the form attached to the Report of the Manager, Real Estate Services, dated December 5, 2016;

AND FURTHER THAT the Mayor and City Clerk be authorized to execute the Memorandum of Understanding, and any documents related thereto, on behalf of the City of Kelowna.

Purpose:

To endorse a Memorandum of Understanding ("MOU") between the City of Kelowna and Worman Commercial for the adaptive re-use of the Surtees Property in a manner that meets the City's heritage and park objectives for the site.

Background:

The Surtees Property is a +/- 4.0 acre site located at 4629 Lakeshore Road that was originally acquired in 2002 to facilitate the construction of a future trailhead for the Bellevue Creek Greenway. The property is intended to act as a key link in a public recreation trail from Okanagan Lake to the city limits at Myra-Bellevue Provincial Park; as such, future park components of the property are anticipated to include a public parking lot and staging area for park users heading east to the City limits at Myra-Bellevue Provincial Park, and west towards Okanagan Lake. A map of the proposed trail network between Okanagan Lake and Gordon Drive is attached as Schedule B.

Acquisition of the Surtees Property included two buildings of significant historical value, both of which visually represent Kelowna in the early part of the 1900's and are identified as such on the [City's Heritage Register](#). The [Surtees Barn](#), originally constructed as a dairy barn circa 1927, is said to be one of the most up-to-date barns in the area for its time, and the [Surtees Homestead](#) (also known as the Ritz Cafe), constructed circa 1912, is linked to the building of the Kettle Valley Railway.

Given competing community priorities and limited funds to continue to preserve failing buildings, Council directed staff to proceed with the development of a Heritage Management Strategy in December 2009. The Surtees Property was identified as a priority for adaptive re-use, and Infrastructure Planning staff met with various community stakeholders to receive input on how to best utilize the site. Based on the information received, a Request for Expressions of Interest ("RFEI") was issued in July 2012 by the City's Infrastructure Planning Department, seeking adaptive reuse proposals of three of the Heritage Register properties owned by the City, including the St. Aiden's church site and the Surtees property. The City received four responses; however, upon review by staff, it was determined that none of them met the City's criteria or expectations.

More recently, the Surtees Barn and Surtees Homestead buildings were included in the City's work plan for Heritage Asset Restoration, as approved by Council in October 2015. This was further supported by Council approval of \$48,000 in December 2015 to explore potential restoration programs for the Surtees Property and the City's other heritage assets of significance (notably the Cameron House and the Brent's Mill Heritage Park buildings).

Partnership Opportunity

In early 2016, a potential partnership opportunity with Worman Commercial for the adaptive re-use of the Surtees Property was developed by Staff. The goal of the partnership would be to work towards the restoration of the Surtees Property by rehabilitating the existing buildings and protecting the character of the site in a fashion that showcases - and celebrates - its heritage and park value. Based on the discussions with Worman Commercial, a partnership would be based on the following components:

- An agreement to restore the Surtees Barn and Surtees Homestead in a manner that meets the City's heritage objectives for the site through the use of a Heritage Revitalization Agreement and a Heritage Designation Bylaw¹.
- A 75 year lease of the Surtees Barn, the Surtees Homestead and the adjacent lands, subject to various restrictions to ensure public access and heritage preservation.
- A 75 year land lease of a +/-2,200sf portion of the Surtees site, and the adjacent lands, to allow Worman Commercial to construct one new building on-site, providing it is complementary to the existing buildings and meets certain size and height restrictions; and,

¹ Note that applications and approval for both of these processes would be separately considered by the recently created Heritage Advisory Committee and by Council.

- +/- \$200,000 compensation to the City to reflect the market value of the land lease, as confirmed via a third-party appraisal, subject to the various restrictions and conditions associated with the lease agreement.

Given the condition of the existing Surtees buildings, the proposed partnership based on the principle of adaptive re-use - the repurposing of old buildings that have outlived their original purposes for different uses or functions while retaining their historic features - may be one of the last opportunities of preserving these valuable heritage resources. The commercial post-adaptive re-use viability of the buildings, be it in the form of retail or food and beverage outlet, effectively generates the resources necessary for their preservation. In the absence of the same, the future survival of the Surtees properties would be wholly dependent on taxation funding.

Project Related Transportation Improvements

The construction of a roundabout at the Lakeshore and Collet Road intersection has been a long-standing transportation safety objective along what is becoming an increasingly more well-traveled arterial route. Furthermore, a roundabout in this location will ensure appropriate site access to the Bellevue Creek linear park, and is a critical component to the financial viability of the proposed adaptive re-use of the Surtees site. Costs associated with the roundabout, including associated shallow utilities and road upgrades, have been estimated at approximately \$850,000.

It should be noted that a number of other key transportation initiatives are to be supported from the Road DCC reserve funding the proposed roundabout, one of which includes [South Perimeter Road](#). As such, ensuring the Collett/Lakeshore intersection improvements do not jeopardize other key municipal transportation objectives will be an important component of the City's due diligence process with respect to the MOU.

Partnership Cost/Benefit Analysis

Staff consider the proposed partnership to be a unique opportunity to meet a number of municipal needs - including promoting parks and preserving heritage - in a fiscally prudent manner. Key benefits associated with the proposed MOU are summarized in the table below:

Benefits Associated with the Proposed Surtees Property Re-Development	
•	Rehabilitation and adaptive re-use of two buildings that hold significant historical value to the community, at no cost to the City.
•	Annual operating and maintenance of heritage and commercial buildings as well as public areas, at no cost to the City
•	Strengthening the economic/commercial viability of the existing commercial node at the Collett/Lakeshore Road intersection.
•	Development of a trailhead for Bellevue Creek with an appropriately integrated commercial amenity for park users.
•	Installation of a roundabout, which will alleviate local resident safety concerns with respect to the Collett/Lakeshore Road intersection.

A summary of the cost implications associated with the proposed MOU, compared with the alternative of a city-led restoration initiative of the Surtees heritage buildings, is provided below. Note that this scenario does not include the additional capital costs that will be borne by Worman Commercial, including construction of an access lane, a public plaza, and interpretive signage. Furthermore, on-going cost savings with respect to the annual operating and maintenance of the site that would be born by the developer are not captured below.

Cost/Benefit Analysis		
	Option A Proposed MOU	Option B City Led Initiative
Heritage Restoration Costs	\$0	\$534,000 ²
Transportation Costs	\$850,000	\$850,000
Total Costs	\$850,000	\$1,384,000
Less: lump-sum lease payment	\$200,000	\$0
Net Costs to City	\$650,000	\$1,384,000

Development Process

A Heritage Revitalization Agreement ("HRA") would guide the proposed restoration and adaptive re-use of the Surtees heritage buildings, landscaping and site development as well as the development of a new +/-2,200sf commercial building. As a result, the Surtees property will maintain its P3 (Parks and Open Space) zoning as well as its "Major Park and Open Space" future land use designation.

Worman Commercial, in conjunction with a heritage consultant, will be required to prepare a comprehensive proposal outlining the intended changes to the property. The proposal will require the approval of the Heritage Advisory Committee, an independent body mandated to advise council on matters related to heritage protection and conservation, as well as Council approval of the Heritage Revitalization Agreement via the public approval process.

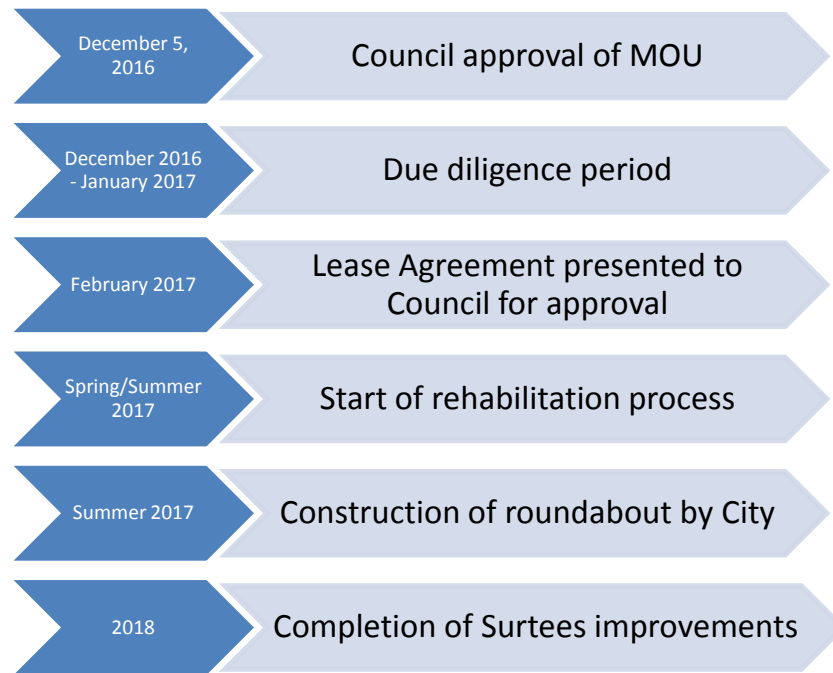
A preliminary conceptual design of a possible proposal for the site is shown in the attached Schedule C. Note that this is for discussion purposes only, and the final site design would be subject to the approval process described above.

Timeline of Events

Should Council endorse the MOU, both parties would work through their respective due diligence processes with the goal of entering into a legally binding lease agreement. For the City, this will include confirmation of the necessary funding for the roundabout associated with the MOU via the 2017 Capital Budget process.

² This cost estimate is based on stabilization and preservation of the buildings only, and does not include retrofitting/modernization as necessary to make the buildings useable. Further restoration for occupation and to meet building code compliance would likely cost more than double the stabilization and restoration estimates.

Upon successful completion of the due diligence period, Real Estate Services staff would return to council for approval of the definitive lease agreement with Worman Commercial. The approximate timeline of events associated with this partnership is summarized below:



Financial/Budgetary Considerations:

Total construction costs associated with the roundabout are anticipated to be approximately \$850,000, with projected funding of \$616,000 from the Sector B Road DCC reserves, \$34,000 from taxation, and the balance sourced from the \$200,000 lump-sum lease payment associated with the partnership.

As previously noted, City Staff are currently in discussions with the South Perimeter Road development team with respect to construction costs and timing associated with that project, as it too is funded from the Sector B Road DCC reserve. Ensuring funding availability for the proposed roundabout in light of the city's commitment to supporting South Perimeter Road will be a key component of the City's due diligence period.

Existing Policy:

The proposed partnership is founded upon a number of key municipal objectives, as supported by Council in the City's Official Community Plan. A summary of these is provided below.

Proposed Partnership - Alignment with Municipal OCP Objectives		
Objective	Policy	Details
7.15 Develop park partnerships	.1 Partnerships	The City will create community and enhance quality-of-life through partnerships with developers, residents' associations, property

		owners, non-profit organizations, private enterprise, user groups and individuals, on the acquisition and construction of all classes of parks.
9.2 Identify and conserve heritage resources.	.2 Heritage Resource Management.	Require heritage resource management to be integrated in the development and review of pertinent plans.
9.2 Identify and conserve heritage resources.	.3 Financial Support	Continue to support the conservation, rehabilitation, interpretation, operation and maintenance of heritage assets through grants, incentives and other means.
5.7 Identify and conserve heritage resources.	.1 Heritage Register	Use the Kelowna Heritage Register for fully informed decision-making regarding land use of heritage properties
5.7 Identify and conserve heritage resources.	.2 Heritage Designation	Encourage owners of properties listed in the Kelowna Heritage Register and identified as significant to voluntarily provide long-term heritage protection to their properties through the use of a Heritage Designation Bylaw.
5.7 Identify and conserve heritage resources.	.3 Heritage Revitalization Agreements	Consider the adaptive reuse of heritage buildings appropriate within any future land use designation, provided that a Heritage Revitalization Agreement is negotiated with the City and provided that the project meets the criteria established for sensitive neighborhood integration.

Communications Comments:

Signing of the lease agreement and the Heritage Revitalization Agreement will follow the typical approval process, including a public hearing.

Pending 2017 budget approval, a pre-construction public information session would be anticipated prior to construction of the Collett roundabout and proposed in partnership with Worman Commercial to inform the public of the anticipated development at the intersection, and associated construction impacts and timelines for the affected businesses and residents.

Internal Circulation:

Director, Community Planning & Real Estate
Manager, Policy & Planning Department
Manager, Parks & Building Planning
Manager, Urban Planning
Manager, Infrastructure Delivery
Manager, Integrated Transportation Department
Manager, Infrastructure Engineering
Director, Real Estate Services

Director, Financial Services
Community Engagement Consultant

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Legal/Statutory Authority:

Personnel Implications:

External Agency/Public Comments:

Alternate Recommendation:

Submitted by: J. Säufferer, Manager, Real Estate Services

Approved for inclusion: D. Edstrom, Director, Real Estate Services

Attachments: 1. Schedule A - PowerPoint Presentation
2. Schedule B - Memorandum of Understanding
3. Schedule C - Conceptual Site Design Drawing

cc: D. Gilchrist, Director, Community Planning & Real Estate
J. Moore, Policy & Planning Department Manager
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