



# City of San Antonio

## Agenda Memorandum

**File Number:** 18-3554

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**Agenda Item Number:** 19.

**Agenda Date:** 6/14/2018

**In Control:** City Council A Session

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**DEPARTMENT:** Aviation

**DEPARTMENT HEAD:** Russell J. Handy

**COUNCIL DISTRICTS IMPACTED:** Citywide

### **SUBJECT:**

Lease Agreement with WesternSATLeasing, Inc. at the San Antonio International Airport

### **SUMMARY:**

Consideration of two Ordinances related to a lease agreement for property at 10440 John Cape Road at the San Antonio International Airport (SAT):

- A. This Ordinance authorizes a lease agreement with WesternSATLeasing Inc. (Western) at SAT for an initial term of 25 years for a total of 386,562 square feet (approximately 8.87 acres) located at 10440 John Cape Road. The property will be divided into two parcels and developed separately. The initial annual rental rate for both parcels will total \$96,640.00 during the construction period of the site development. Once construction on the property is complete, the annual rental rates shall adjust to \$154,624.80 for both. The terms for both parcels may be extended for an additional five years if capital investments levels are met.
- B. This Ordinance declares two hangars and one building as surplus and authorizes the demolition of all three buildings.

### **BACKGROUND INFORMATION:**

In 2013 Hawker Beechcraft closed its aircraft maintenance facility at SAT as part of a nationwide downsizing effort. The City issued two Request for Interest (RFI) solicitations for the property and, while there was interest, a deal never materialized. In 2017, the City was approached by Western with a proposal to redevelop the property located at 10440 John Cape Road and sublease to other tenants. This proposal will provide a new tenant for a space that has been vacant since 2013 and will generate additional non-airline revenue. In addition,

as part of the lease agreement Western will demolish three current structures (Hangar 4, Hangar 6 and Building 5) on the property at their own expense and build new facilities, which will revert back to the City once the term of the lease is complete.

The City and Western agree that the leased premises may be used to provide services such as: aircraft charter service; storage of aircraft; aircraft sales; corporate aviation facility; avionics shop; and, maintenance, repair and overhaul business. The Aviation Director may approve other forms of use however, the selling of fuel, self-fueling services or the storage of fuel tanks or fuel will not be allowed on the leased premises. Based upon results from a recent Fixed Based Operator (FBO) Feasibility Study, an FBO business will not be allowed until further analysis indicates a market-based need for an additional FBO.

### *Leasehold and Terms*

The term of the agreement is 25 years and the term may be extended for an additional five years if capital investments levels, described below, are met.

The total acreage amount is 386,562 square feet (8.87 acres) which will be developed in two phases. The first parcel (Parcel 1) is the larger of the two parcels at 6.73 acres while the second parcel (Parcel 2) is 2.15 acres. Both parcels have access to airfield.

The rental rates were calculated utilizing the 2018 Market Rental for Ground Study completed by Eckmann Groll, Inc., one of the City's on-call real estate appraisers. Each parcel of land has been assessed an annual rate per square foot, and a reduced annual rate during construction. This is a standard practice to establish a lower rental rate when the tenant is building on city-owned property.

### Parcel 1

Following the approval of the lease agreement by City Council, Western will have four months to complete plans and obtain the approvals from the City and complete all necessary permitting related to the construction for Parcel 1. Parcel 1 consists of 292,950 square feet of ground space. The annual rental rate will be \$0.25 per square foot during this pre-construction period. Construction must start at the conclusion of the four-month period (if not earlier) and be completed within 18 months (if not sooner). Once construction begins, the rental rate will increase to \$0.40 per square foot. Completion of construction is indicated through the issuance of a Certificate of Occupancy (CoO) by the appropriate regulatory body.

### Parcel 2

Parcel 2 consists of 93,612 square feet and the annual rental rate will be \$0.25 per square foot until the initial construction begins. Construction shall begin within the 12 months after the completion of the construction of Parcel 1 (and the receipt of the CoO for Parcel 1) and the rental rate will increase to \$0.40 per square foot. If construction on Parcel 2 does not begin within 12 months after the completion of the construction of Parcel 1 (and the receipt of the CoO), then Parcel 2 may revert back to the City. Construction on Parcel 2 shall be completed within 12 months of commencement, which includes receiving a CoO.

The rental rates for each parcel will increase by 15 percent for each ensuing five-year period. The terms of each lease agreement may be extended for one additional five year period if certain capital investments are met at the end of the initial term:

- Parcel 1 has a minimum capital investment of \$20 million. If Western cannot establish that it made the minimum capital investment of \$20 million on the property during the construction of Parcel 1, then the firm will either pay the difference or have the option to reduce the primary term of the agreement by a period proportionate to the capital investment shortcoming. In either option, the city will recoup the costs through an up-front lump sum payment, or the property will revert back to the city sooner than the 25-year term.

- Parcel 2 has a minimum capital investment of \$5 million. If Western cannot establish it made a \$5 million investment during construction, then the firm will either pay the difference or have the option to reduce the primary term of the agreement by a period proportionate to the capital investment shortcoming. In either option, the city will recoup the costs through an up-front lump sum payment, or the property will revert back to the city sooner than the 25-year term.

## **ISSUE:**

This Ordinance authorizes a lease agreement with Western at SAT for an initial term of 25 years for two parcels located at 10440 John Cape Road. The initial annual rental rate for both parcels will total \$96,640.00 during the construction period of the site development. Once construction on both parcels is complete, the annual rental rates shall adjust to \$154,624.80. The terms for both parcels may be extended for an additional five years if capital investments levels are met.

Item A: Lease agreements over a term of six months require the approval of City Council.

Item B: City Council authorization is required for the declaration of surplus of City-owned buildings.

## **ALTERNATIVES:**

Item A: City Council could elect to not authorize this lease agreement. However, this action would result in the City losing revenue and require Western to identify another location for their project.

Item B: City Council can deny the request and allow the buildings to remain on premises indefinitely. However, this action would hinder the development plans of the property by Western and significantly impact the image and appearance of airport property.

## **FISCAL IMPACT:**

Item A: During the pre-construction phase of the lease agreement, the annual rental rate will be \$0.25 per square foot for each parcel and generate \$96,640.50. Once construction begins on each parcel, the rental rate will increase to \$0.40 per square foot. The rental rate of \$0.40 per square foot was determined by the 2018 Market Rental for Ground Study completed by Eckmann Groll, Inc., one of the City's on-call real estate appraisers. It is standard practice, when the tenant is building on city-owned property, for a lower rental rate to be established during the construction period. The rental rate of \$0.25 per square foot was negotiated between the City and the tenant. Once both parcels are complete, the City will receive \$154,624.80 which will be deposited into the Airport Operating and Maintenance Fund.

Item B: The tenant will be responsible for all demolition activities. There is no fiscal impact to the City.

## **RECOMMENDATION:**

Staff recommends the authorization of the lease agreement with WesternSATLeasing, Inc. for an initial term of 25 years at the San Antonio International Airport and the declaration of surplus the three existing buildings on the property.