

GILLESPIE FIELD DEVELOPMENT COUNCIL  
Tuesday, January 20, 2009  
AGENDA ITEM #4

GILLESPIE FIELD INDUSTRIAL PARK  
AMENDMENTS TO INDUSTRIAL LEASES  
NEGOTIATED RENTAL ADJUSTMENT IN LIEU OF FORMULA INCREASE

This is a request to recommend approval of thirty-three (33) amendments for individual ground leases located in the Gillespie Field Industrial Park (GFIP). The proposed amendments will establish a phased-in rental increase over the five-year period from January 1, 2009 through December 31, 2013. The amendments will also make procedural changes to the process to be used for future rental adjustments to produce faster results and reducing costs, thus benefiting both County and the Lessees.

Background

The GFIP leases contain a formula for calculating rental adjustments every five years. This formula is based on average per acre land value indicated by sales within the El Cajon Santee Industrial Land Value Index (ILV), which is a defined list of industrial parcels. Because the formula is based on changes in land value over a five-year period it can result in substantial rent increases. Previous increases in 1999 and 2004 were 17% and 29%, respectively. Rents for the period between 2004 and 2008, were based on a land value of \$10.16 per square foot, which equates to a monthly rent of approximately \$3,293 per acre based on the lease formula. Although this was fairly accurate for five years ago it is well below current market values, even in the existing market slow down.

2009 ILV Formula Increase and Appraised Land Value

Because the formula in the GFIP leases is based on an average over five years, it typically produces a land value that is more conservative than an appraisal. Due to the extraordinary increases in land values during the first part of the previous five-year period, using the ILV formula for the period beginning January 1, 2009 produced an increase that is significantly greater than past increases. To implement such a significant increase at one time could be a hardship to the existing businesses in the industrial park.

Proposed Rental Adjustments

The County wishes to be a good partner to lessees in the GFIP during the current difficult economic situation, rather than just implementing the formulaic increase contained in the leases. County Airports has worked with the Lessees in negotiating the following lease amendment terms for these leaseholds, to be retroactively effective to January 1, 2009. All 33 of GFIP Lessees have accepted the proposed amendment terms in writing.

Proposed Amendment Terms

The proposed lease amendments will accomplish the following:

Phased-in Rental Increases Instead of implementing the ILV increase as provided in the lease, the County has offered to amend the GFIP leases to produce a more

reasonable increase of only 8% each year, spread out over the entire five-year adjustment period. This would allow the County to show the FAA we are moving towards market rent, while still providing some relief to the local businesses in the GFIP. The proposed rent schedule is as follows:

RENTAL PERIOD	LAND VALUE	PER ACRE PER MONTH RENT	% INCREASE	CUMULATIVE % INCREASE
1/1/2009-12/31/2009	10.98	3,556.50	8%	8%
1/1/2010-12/31/2010	11.85	3,841.03	8%	17%
1/1/2011-12/31/2011	12.80	4,148.31	8%	26%
1/1/2012-12/31/2012	13.83	4,480.17	8%	36%
1/1/2013-12/31/2013	14.93	4,838.59	8%	47%

The next scheduled rent adjustment in 2014 would go back to using the ILV and the formula to determine market value as defined in the GFIP leases.

Changes to the ILV Calculation for Future Rental Adjustments Two changes to the ILV calculation will be made through the proposed amendments:

First, the five-year period during which industrial land sales are considered will be changed from the period ending June 30, to the period ending March 31, immediately preceding the period for which the rent is being adjusted. Although still a five-year period, this change will allow Airports staff more time to gather transfer and reassessment data and to distribute this information to Lessees with more advance notice prior to implementation of future ILV changes.

Second, the number of parcels in the ILV that need to be reassessed during the five-year period will be reduced from ten (10) to eight (8). Currently, the GFIP leases state that if less than ten (10) parcels transfer during the period, additional parcels will be randomly selected for appraisal and the appraised rate will be included in the ILV calculation. This could result in a higher ILV rate. This change will reduce the likelihood of Airports needing to order appraisals to determine the land value of future ILVs during periods of reduced property transfers, thus streamlining the process, producing faster results and reducing costs.

Premises Descriptions In addition, the majority of the Lease amendments will also restate premises descriptions to clarify the net acreages upon which rent is being calculated.

Recommended Motion

*“It is recommended that the Board of Supervisors approve the thirty-three industrial ground lease amendments to Leases in the Gillespie Field Industrial Park, as recommended by staff.”*