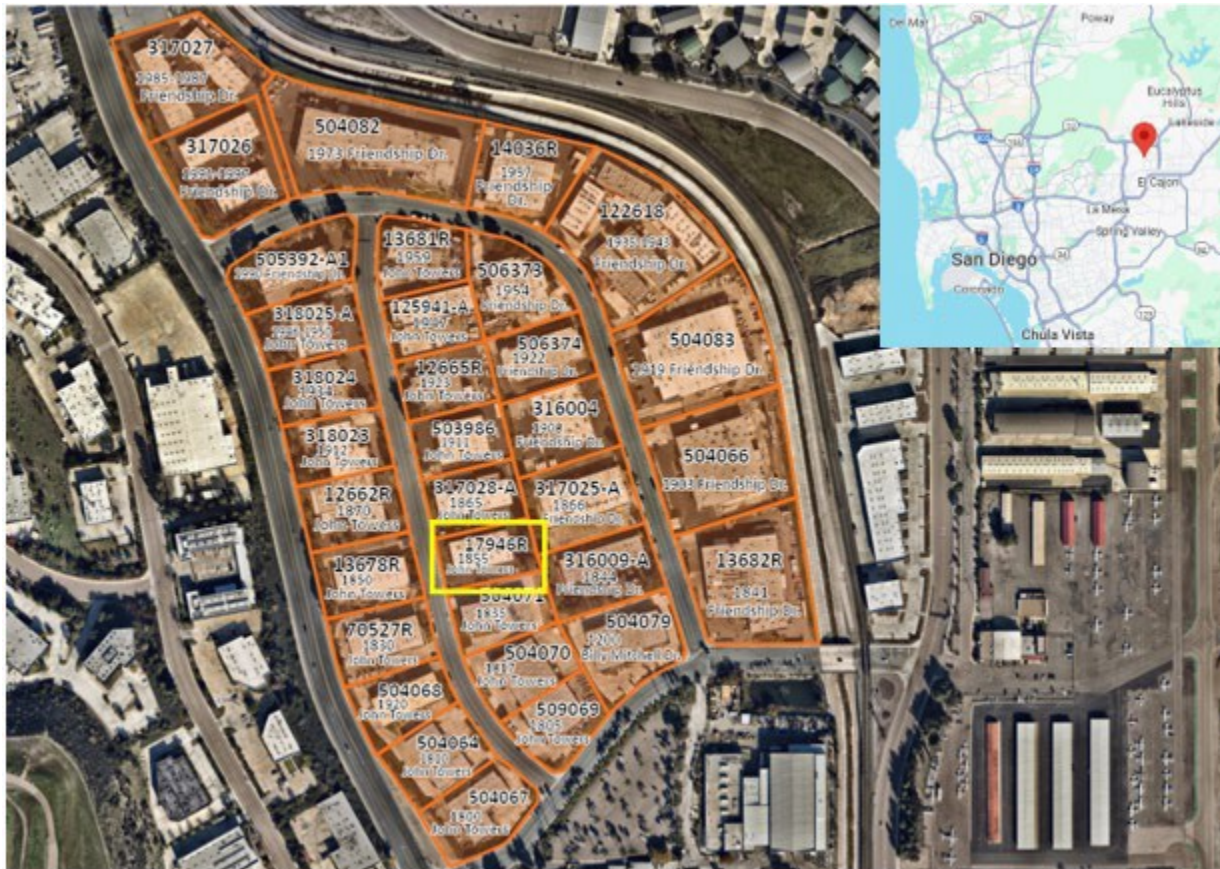


GILLESPIE FIELD DEVELOPMENT COUNCIL

05/21/2025

AGENDA ITEM # 9

THE ARC OF SAN DIEGO ("THE ARC"), CONTRACT # 17946R THIRD AMENDMENT TO INDUSTRIAL LEASE



BACKGROUND

The Gillespie Field Industrial Park (GFIP) includes 33 separate leases for light industrial uses such as light manufacturing, distribution and other business and office uses. The industrial lease with the Arc of San Diego (Arc) is one of those leases. On April 13, 1982 (70), the Board approved a fifty-five-year lease with The Arc, a nonprofit corporation that provides services for people with developmental disabilities, for an 0.89-acre parcel. The lease commenced on April 1, 1982 and terminates on March 31, 2037. The lease has been amended twice: (i) on June 18, 2003 (13) to revise language and add new provisions, including the provision allowing The Arc to provide maintenance, landscaping and other services as consideration in lieu of its monthly payment of fair market rent; and on February 25, 2009 (7) to implement a tiered rental increase over the subsequent five-year period.

The current lease contains a formula for calculating rental adjustments every five years and was set to adjust on January 1, 2024. This formula is based on average per acre land value indicated by sales of parcels within the Industrial Land Value (ILV) Index list, over the preceding five-year period. Because adjustments are based on a formula contained in a Board-approved lease, additional Board approval is not required if the adjustment is implemented in accordance with the formula.

In 2019, the rental rate was adjusted to \$4,854 per net acre per month, a 0.78% over the 2014 rate, a minor increase reflecting post-recession slow market growth. The application of the ILV-driven formula for the 2024 adjustment resulted in \$8,757 per net acre per month rate, an 80.41% increase over 2019. This substantial difference reflects the rapid increase in market values fueled by low interest rates, accelerated economic growth and recent rampant inflation.

Due to the ILV index-based calculation that led to comparatively high rent increases, and the County's sensitivity to the possible burden the rent increase may create to the Arc and its other GFIP lessees, County Airports staff obtained an appraisal report to confirm the value produced by the formula. The appraisal was completed by a qualified independent appraiser in accordance with the Federal Aviation Administration (FAA) guidelines. Upon appraising a typical lot within GFIP in July 2023, and researching the lease terms, the independent appraiser estimated the market rental rate at \$7,773 per net acre per month. This rate is notably lower than the ILV index calculation results and represents an increase of 60.14% over the current rate.

PROPOSED AMENDMENT

As an alternative to automatically implementing the ILV formula-based increase, the County offered and lessee accepted to amend the lease to the appraised rate at a more manageable increase of approximately 10% each year, spread out over the five-year adjustment period. With the application of this method, the appraised rental rate of approximately \$7,773 per acre per month will be reached by the start of year five. This method will allow the County to stay within the FAA requirements of moving towards market rent, while still providing some relief to The Arc and other GFIP businesses.

If the amendment is approved, The Arc's current rent will increase in accordance with the following schedule:

Effective Date	Base Monthly Rent	Difference	Percentage Increase
1/1/2024	\$4,730.83	410.44	9.5%
1/1/2025	\$5,203.91	473.08	10%
1/1/2026	\$5,724.30	520.39	10%
1/1/2027	\$6,296.73	572.43	10%
1/1/2028	\$6,918.22	621.59	9.9%

As is typical with many leases, the current lease allows The Arc to assign or transfer its interest in the premises or any part or portion thereof to another entity only with the prior written consent of the County and processing fee payment. And The Arc intends to assign

its leasehold interest to James A. Renner Jr. 401(k) Profit Sharing Plan & Trust, MYRE Angel LLC, and Denton Road LLC as assignees after the “Third Amendment to Industrial Lease” is executed. The assignees will not provide services in lieu of rent. Instead, the assignees will make monthly cash payments towards rent.

Accordingly, the proposed amendment will remove the services in lieu of rent provisions contained in The Arc lease and replace them with the standard rental language used throughout the Gillespie Field Industrial Park leases. These additional changes include amendments to: (i) remove language in the lease that allows The Arc to provide services in lieu of cash payments for market rent; (ii) remove the lease’s Exhibit “G” which identifies the services the Arc can provide; (iii) revise the permitted use to reflect those uses permitted and described in the lease’s Exhibit “B” (such as research and development, industrial and manufacturing, warehousing, storage, offices, services, and others) and remove the allowable uses that are specific to The Arc (such as for training and jobs for people with developmental disabilities); and (iv) add the Working Families Ordinance provision.

Recommended Motion

“Gillespie Field Development Council recommends that the County Board of Supervisors approve the proposed lease amendment with The Arc of San Diego for Contract 17946R.”