

GILLESPIE FIELD DEVELOPMENT COUNCIL

Wednesday, March 15, 2017

AGENDA ITEM #7

New Industrial Ground Leases
with 1866 Friendship, LLC, 1991 Friendship, LLC, and 500 Raleigh, LLC



BACKGROUND

On November 21, 1978 (58), the Board of Supervisors approved a 55-year industrial ground lease in the Gillespie Field Industrial Park with Chandelle Properties, Ltd., which was later assigned to 1866 Friendship, LLC. This lease commenced on January 1, 1979 and terminates on December 31, 2033. On April 17, 1979 (27, 31, 32), the Board of Supervisors approved three 55-year industrial ground leases in the Gillespie Field Industrial Park, with: Emil E. & Mary L. Ballman (27), which was later assigned to 500 Raleigh, LLC; Hackworth & Associates #1 (31), which was later assigned to 1991 Friendship, LLC; and Hackworth & Associates #2 (32), later assigned to 500 Raleigh, LLC. Each of these three leases commenced on May 1, 1979 and will terminate on April 30, 2034.

This is a request to recommend the County Board of Supervisors approve four new 50-year industrial ground leases; one with 1866 Friendship, LLC, one with 1991 Friendship, LLC, and two with 500 Raleigh, LLC, which will replace the existing leases.

Federal law requires that airport land be released by the Federal Aviation Administration (FAA) prior to being used for non-aeronautical purposes. The FAA agrees to such

releases when the land is not suitable for aeronautical use or is not needed to meet aviation forecasts. The FAA had previously released this area for industrial use because the land is separated from Gillespie Field airport operational areas by a flood control channel and Marshall Avenue. Federal law also requires that the county receive market rent for airport land and that revenue must be used for the operation and maintenance of the County Airports System.

PROPOSED LEASES

The new leases are based on the most recent County standard industrial lease format approved by County Counsel, which includes updates made to stormwater requirements, indemnity and other protections. If the proposed actions are approved, the new 50-year leases would commence on June 1, 2017 and terminate on May 31, 2067.

Base Monthly Rent

Currently, these leases pay approximately \$4,816 per acre per month for the useable area of the leasehold. If the new leases are approved, the base monthly rent for each lease shall continue at the same rate until December 31, 2018 when the rent will be adjusted by using the Industrial Land Value Index formula contained in the leases. Thereafter, the rent will be renegotiated every five years. This schedule would keep these lease adjustments on the same schedule as other leases in the Gillespie Field Industrial Park.

Equity Payments

At the end of most ground leases, including the current leases identified above, existing buildings and improvements become the property of the County. As the County's ownership of the leasehold improvements would be postponed as a result of granting the new leases, the lessees would pay the County compensation for postponing this reversionary interest, otherwise known as an "Equity Payment." The County and Lessees have agreed to the Equity Payments as described below for each lease. The amount of the payments vary depending on the property value, based on the size, use and condition of the existing improvements

Required Leasehold Improvements

As additional consideration for the County granting new leases, the lessees would be required to meet minimum capital investment requirements. As these lease parcels have been completely built-out, the lessees would invest this amount into upgrades that improve safety, security and energy efficiency of the leaseholds. The required capital investments, in the amounts listed below, vary based on the usable acreage for each property.

The individual terms for each lease are as outlined below:

1866 Friendship, LLC, County Contract Number 317025

Base Monthly Rent: \$6,213

Acres: 1.29 net

Equity Payment to County: \$260,026

Required Investment: \$215,540; these recent projects include updated landscaping, including low water usage irrigation, drought tolerant plants and hardscape design, energy efficient office upgrades and lighting, redesign of exterior building windows and replacement of asphalt with concrete in some areas

1991 Friendship, LLC, County Contract Number 317026

Base Monthly Rent: \$7,030

Acres: 1.46 net

Equity Payment to County: \$373,596

Required Investment: \$241,506; these additional improvements would include projects such as updated landscaping, including low water usage irrigation, drought tolerant plants and hardscape design, energy efficient upgrades and lighting.

500 Raleigh, LLC, County Contract Number 317027

Base Monthly Rent: \$9,874

Acres: 2.05 net

Equity Payment to County: \$404,667

Required Investment: \$339,101; these additional improvements would include projects such as updated landscaping, including low water usage irrigation, drought tolerant plants and hardscape design, energy efficient upgrades and lighting and roofing upgrades.

500 Raleigh, LLC, County Contract Number 317028

Base Monthly Rent: \$4,720

Acres: 0.98 net

Equity Payment to County: \$260,611

Required Investment: \$162,107; these additional improvements would include projects such as updated landscaping, including low water usage irrigation, drought tolerant plants and hardscape design, energy efficient upgrades and lighting, and fire sprinkler and roofing upgrades.

RECOMMENDED MOTION

“Gillespie Field Development Council recommends the Board of Supervisors approve the proposed new 50-year Ground Lease with 1866 Friendship, LLC, the proposed new 50-year Ground Lease with 1991 Friendship, LLC, and the two proposed new 50-year Ground Leases with 500 Raleigh, LLC, as recommended by staff.”