

GILLESPIE FIELD DEVELOPMENT COUNCIL  
March 18, 2015

AGENDA ITEM #6

New Industrial Lease  
with GKN Aerospace Chem-Tronics, Inc.

Gillespie Field includes three industrial parks, one of which is the Gillespie Field Industrial Park located between Marshall Avenue and Cuyamaca Street. Leases at Gillespie Field Industrial Park, as well as at the adjacent Cuyamaca West 1 and Cuyamaca West 2 industrial parks, occupy airport-owned land that has been released by the FAA for non-aeronautical use. These leases generate revenue to support the County Airports System, while providing economic benefits and jobs to the surrounding community. FAA approval for non-aeronautical use is only possible for land that is not suitable for aeronautical use and when the land is not needed to meet aviation forecasts.

On June 21, 1966, the Board of Supervisors approved a 49-year lease with The Lahid Company for the 1.46-acre parcel located in the industrial area of Gillespie Field. The lease, currently known as County Contract No. 03420R, commenced on July 1, 1966 and is scheduled to terminate on June 30, 2015. In December 1976, The Lahid Company assigned this lease to Chemtronics, Inc., which later changed its name to GKN Aerospace Chem-Tronics, Inc. ("Chem-Tronics").

Chem-Tronics is a major manufacturer of aerospace hardware, aircraft parts, systems and structural engine components and one of the largest employers in the East County. The company employs approximately 700 people, a well-trained and skilled workforce that operates production on three work shifts in most areas of the facility. Chem-Tronics owns about 10 acres of land adjacent to Gillespie Field and has four leases with the County for a total of 14.157 net acres of land, including this lease for the 1.46-acre parcel. In order to continue operations at this location, Chem-Tronics has requested a new lease, which would replace County Contract No. 03420R upon its termination.

Proposed New Lease

County and Chem-Tronics have negotiated a new lease to replace County Contract No. 03420R. The new lease is based on the most recent County standard industrial lease form. If the proposed action is approved, the new 25-year lease would start on July 1, 2015 and terminate on June 30, 2040, concurrently with one of the other Chem-Tronics' leases, County Contract No. 71871R.

Base Monthly Rent

Currently, Chem-Tronics pays \$2,178 per month for this property. The current rent is significantly below market rates, since opportunities for rent renegotiations were limited under the old lease. The other three Chem-Tronics' leases with the County are already at market rent. The County and Chem-Tronic's have agreed to a new rent that reflects

the same rate paid on the adjacent leaseholds. If the proposed new lease is approved, starting July 1, 2015, the new monthly rent for this 1.46-acre parcel would be \$7,035.

The new lease provides for annual cost of living adjustments based on the consumer price index. It also provides for renegotiated rental adjustments every nine years, starting July 1, 2022. The same periodic rental adjustment schedule was recommended by the Gillespie Field Development Council in March 2013 and subsequently approved by the Board of Supervisors for Chem-Tronics' two other adjacent leaseholds. The fourth Chem-Tronics' lease is in a newer section of the Gillespie Field Industrial Park and its rent adjusts every five years, consistent with other leases in that section.

#### Required Leasehold Improvements

As additional consideration for the County granting a new lease, Chem-Tronics would be required to invest a minimum of \$182,500 in capital improvements, based on the standard formula used in granting new leases with additional term. County and Chem-Tronics have agreed to include the amount of \$47,500 for a portion of substantial upgrades to lighting and air compressor infrastructure that Chem-Tronics has recently made to the facilities toward the lessee's satisfaction of the minimum capital improvement requirement. It is anticipated that within three years following the start of the new lease, Chem-Tronics will make additional capital investment of at least \$135,000 into upgrades that improve conservation and efficiency of its leaseholds, for example: the installation of a solar energy generation system on the roof of the buildings, solar panels in the parking lot, xeriscaping, or other qualified projects.

#### **RECOMMENDED MOTION**

*“Gillespie Field Development Council recommends the Board of Supervisors approve the new Industrial Lease between the County of San Diego and GKN Aerospace Chem-Tronics, Inc., as recommended by staff.”*