



DATE: January 11, 2018

TO: Council Airport Committee

FROM: Interim Director of Public Works

SUBJECT New Lease with Velo Two, LLC

RECOMMENDATION

That the Committee reviews this report, provides comments regarding the proposed lease, and makes a recommendation for action to Council.

BACKGROUND

Hayward Associates No. 4 entered into a Ground Lease Agreement with the City on September 24, 1984 for a parcel of land located at 21615 Hesperian Boulevard. On June 20, 2000, the Ground Lease was assigned to Velo Two, LLC (Velo Two). The parcel consists of approximately 125,482 square feet of improved land, with 42,190 square feet utilized as rentable space. Velo Two subleases the property to four commercial subtenants.

DISCUSSION

While the current lease expires on October 10, 2038, Velo Two management approached staff about the negotiation of a new lease that will be of mutual benefit. The proposed lease term is fifty years beginning in January 2018, with an option to renew for one additional ten-year extension.

One of the key provisions of the lease is a required investment in capital improvements to the existing buildings, including exterior paint and water seal, asphalt repairs, new landscaping, and interior lighting upgrades. Velo Two will be required to spend a total of \$815,000 over the first seven years of the agreement, with \$350,000 to be spent within the first two years. In addition, the new lease will include an increase in annual rental income for the Airport.

STRATEGIC INITIATIVES

This agenda item pertains to development at the Airport and does not directly relate to one of the Council's Strategic Initiatives.

FISCAL IMPACT

The current rent structure for Velo Two consists of two components: 1) an annual base rent amount of \$50,192; and 2) additional rent that is tied to the total amount of gross rent received by Velo Two in each calendar year. This additional rent in past years has been \$14,375 in 2015 and \$3,269 in 2016. The gross rent was less in 2016 due to a reduction in the number of tenants (from five to three). The estimated rent for 2017 should be greater than it was in 2016 as four tenants currently occupy the leasehold. The actual financial data from the leaseholder will be available by March 2018 (per the terms of the existing agreement). The new lease eliminates this provision and establishes an annual rent amount as noted in the chart below.

Year 1:	\$75,000
Year 2:	\$90,000
Year 3:	\$95,000
Year 4:	\$100,000
Year 5:	\$105,000
Year 6:	\$110,000
Year 7:	\$115,000
Year 8:	\$120,000
Year 9:	\$125,000
Year 10:	\$125,000 + full CPI

Starting with Year 10, the annual rent will be adjusted every five years by the Consumer Price Index (CPI) for the previous five years with a minimum of 6% and maximum of 10%. The airport CPI methodology is incorporated in each commercial lease. A similar methodology is used for the City owned hangars. This arrangement is consistent with other commercial site leases at the Airport. Monthly ground rent charged to commercial tenants on their own leasehold, and the formula for adjusting it, are different from those formulas for individual tenants in City-owned hangars. The airport's individual hangar tenants are not required to make any investment in infrastructure or capital improvements which has associated risks, and they are not responsible for ongoing maintenance costs. The City has two separate rent adjustment policies in place in recognition of investment made by the commercial tenants.

This new lease with Velo Two will generate additional revenue for the Airport's Operating Fund.

SUSTAINABILITY FEATURES

The action taken for this report will not result in physical development, purchase, or service, or a new policy/legislation.

PUBLIC CONTACT

The Council Airport Committee agenda and staff report have been posted on the City's website and distributed to interested parties. Impact on neighboring businesses would be minimal.

NEXT STEPS

Staff will provide the draft lease to Council for formal approval by February 2018.

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Alex Ameri, Interim Director of Public Works

Approved by:



Kelly McAdoo, City Manager