



DATE: September 21, 2021

TO: Mayor and City Council

FROM: Director of Public Works

SUBJECT: Adopt a Resolution Authorizing the City Manager to Execute a New Lease Agreement with Hayward Hangars, LLC. for Property Located at the Hayward Executive Airport

RECOMMENDATION

That the Council adopts the attached resolution (Attachment II) authorizing the City Manager to execute an agreement with Hayward Hangars, LLC for the lease of Airport property.

SUMMARY

Hayward Hangars, LLC has been a commercial tenant at the Hayward Executive Airport (HWD) since 2006 and provides storage space for general aviation aircraft. The initial lease with Hayward Hangars called for the construction of two hangars (hangar buildings A and B). Due to issues raised by the Federal Aviation Administration (FAA), Hayward Hangars has experienced delays in constructing hangar building A. Because Hayward Hangars has not yet had the benefit of rental income from hangar building A during the past several years, and since it will now cost more to construct the building, the company is requesting that the City enter into a new ground lease that will have a longer term.

The proposed ground lease agreement has similar terms and conditions with changes regarding the effective date, length of term, and monthly rent.

Council Airport Committee Review

This new lease with Hayward Hangars was recommended for Council approval by the Council Airport Committee (CAC) during their meeting held on July 15, 2021.

BACKGROUND

Hayward Hangars has operated on the east side of HWD since 2006. Located at 20995 Skywest Drive (Attachment III), Hayward Hangars is a private company that provides storage space for general aviation aircraft. Currently, two hangar building are active, while a third hangar is slated to be built later this year.

DISCUSSION

The effective date of the current ground lease with Hayward Hangars was July 1, 2006, with a termination date of December 31, 2046. The Hayward Hangar leasehold is 148,975 square feet, or approximately 3.42 acres and contains a building that is subleased for aircraft storage and repairs, and a 24,276-square-foot storage building that holds seventeen general aviation aircraft. A third building is scheduled for construction this year and will consist of twelve additional hangars and total approximately 24,000 square feet. Hayward Hangars is paying rent in the amount of \$3,406 monthly, or \$40,870 per year.

The initial lease with Hayward Hangars called for the construction of two hangars by June 30, 2011 (Attachment IV). A first amendment was signed in 2011 that allowed for an extension of the construction period to 2015 for hangar building B. Soon after, plans were in place to construct hangar building A within one year after the construction of hangar building B. However, the FAA asserted there were issues with the location of hangar A and its relationship to the control tower. Therefore, construction would not be permitted until plans were modified to meet FAA standards. Hayward Hangars and the FAA discussed this issue until late last year and reached an agreement that was amenable to all parties. An updated building permit is being prepared for submission and hangar A should be completed by this Fall.

Because Hayward Hangars has not had the benefit of rental income from hangar A during the past several years, and since it will now cost more to construct the building, the company is requesting that the City enter into a new ground lease that will have a longer term. While most of the terms noted in the existing lease will remain unchanged, the following revisions are proposed:

- The new lease will have an initial term of forty years, with one five-year extension option;
- The new lease will take effect upon the granting of a Certificate of Occupancy for hangar building A; and
- Rent will increase to \$4,096.81 per month.

ECONOMIC IMPACT

Hayward Hangars will provide employment opportunities for skilled workers in the immediate area during the construction of hangar building A.

FISCAL IMPACT

Hayward Hangars is currently paying \$3,405.78 per month, or \$40,869.36 per year. Under the terms of the new lease, the monthly amount would increase to \$4,096.81 per month, or \$49,161.75 annually; this new rate reflects the existing aeronautical rate charged to all aviation-related tenants of \$0.33 per square foot, per year. Unless the City at some point decides to adjust the base rent of \$0.33 per square foot per year, rent would remain unchanged until January 2023, where, along with the other land leases, it will be adjusted by the Consumer Price Index (CPI) and by no more than 7%; this “capping” of the CPI at 7% is

included with other land leases at the airport. At the maximum rate of 7%, the monthly rent would increase to \$4,383.59 or \$52,603.04 annually by January 2023. Therefore, the cumulative, maximum net annual increase by January 2023 would be \$11,733.68.

SUMMARY OF NEW LEASE WHEN COMPARED TO EXISTING LEASE

<u>Item</u>	<u>Existing Lease</u>	<u>New Lease</u>
Term	37 years plus one 5-year extension	40 years plus one 5-year extension
Effective Date	Effective on the first day of the agreed-to month (July 1, 2006)	Effective once Certificate of Occupancy is issued for Building A (expected to be Fall of 2021)
Rent	\$3,405.78/month	\$4,096.81/month

STRATEGIC ROADMAP

This agenda item pertains to development at the Airport and does not directly relate to any of the six priorities outlined in the Council's Strategic Roadmap.

SUSTAINABILITY FEATURES

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

PUBLIC CONTACT

This item was presented at and approved by the CAC on July 15, 2021. The 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

If approved by Council, Airport staff will finalize all lease details prior to execution.

Prepared by: Doug McNeeley, Airport Manager

Recommended by: Alex Ameri, Director of Public Works

Approved by:



Kelly McAdoo, City Manager