

# DEPARTMENT OF AVIATION

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**Real Estate Leases/TXI Proposed Lease  
Amendment and New Lease**

**Briefing to the Council Economic  
Development and Housing Committee**

**April 2, 2007**



# Purpose

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- ❖ Review Key Real Estate Task Force Recommendations as Briefed to the City Council on March 2, 2005
- ❖ Review Key Aviation Department Lease Policies
- ❖ Review TXI Aviation I, LLC Proposed Lease Amendment and New Lease



# Real Estate Task Force

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## **Composition, Purpose and Recommendations**



# Real Estate Task Force

## Composition and Purpose

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Seven Members With Significant Professional Real Estate Experience  
Appointed by Mayor Miller from 2003 To 2005

Anthony W. Dona, Chairman, Thackeray Partners

Jeffrey C. Chavez, Sarofim Realty Advisors

Robert L. Trimble, Catlyn Capital Corp.

Charles G. Dannis, Crosson Dannis, Inc.

Rod Washington, Bank One

Sharon K. Simmons, Simmons Mahomes, P.C.

Manuel M. Ybarra, Pillar Commercial

### Two Primary Objectives

- ❖ Assess policy and procedures for ground leases at City airports
- ❖ Provide general insights into the business environment in the aviation area



# Real Estate Task Force

## Actions and Observations

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### Actions Taken By Task Force

- ❖ Conducted interviews with tenants, Aviation Department staff and city officials
- ❖ Reviewed current Aviation Department Lease Policies and Procedures
- ❖ Reviewed recent Love Field leases
- ❖ Conducted multiple group meetings both with and without Aviation Department present

### General Observations

- ❖ “Good policies and procedures are in place and observed by the Aviation Department”
- ❖ “A high quality standard lease form is currently being used”
- ❖ Agreed, “it is customary for these leases to “abate” rent when the tenant has invested capital dollars which we believe is appropriate”
- ❖ Agreed, “The main objective that the City should have is to make sure the cash flow from the airports is enough to service the long term capital requirements of the facilities and infrastructure. Anything above this is a dis-incentive for business to want to be at these airports which is not in the City’s best interest”



# Key Real Estate Task Force Recommendations

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1. Set standard minimum rental rate increase every three years based on the greater of 3% or the aggregate CPI over the previous three year period, not to exceed 12% every three years
2. Set deadlines for delivery and approval of plans, including commencement and completion of construction
3. Require lessee to provide lien waivers or certificates of completion from its contractors
4. Requires City to receive 75% of excess sublease revenue
  1. Transportation and Environment Committee recommended 100%
  2. Transportation and Environment Committee recommended City approve all subleases  
Under current Aviation Department policy - City Manager approval required only if subleased in whole, City Manager approval not required if a partial sublease
5. In the event of lease termination, permit City to remove and store Lessee's personal property, without City becoming liable for damages
6. Continue the department's policy to review other comparable airport policies and rental rates to insure City airports remain competitive



# Aviation Department Lease Policies

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**Existing Key Lease Policies Reviewed by  
the Real Estate Task Force**



# Aviation Department Lease Policies

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1. Lease term, including options, not to exceed 40 years
2. Title to all improvements revert to the City upon completion of construction (Not at the end of the lease)
3. The lessee to complete construction within 24 months, with deadlines for completion of plans, commencement and completion of construction
4. Insurance and indemnification requirements reviewed and approved by the City Attorney's Office and Risk Management Division
5. After completion of construction and a reasonable amortization period (30 years) lessee to pay rental on improvements
6. Review comparable airport policies and rental rates to insure City airports remain competitive





# Aviation Department Lease Policies

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## Amortization

- ❖ When a tenant provides funding and constructs the building(s), the rent is based on the airport's prevailing ground rental rate for a term necessary to amortize the investment.
- ❖ Lenders will not typically lend money to a tenant who does not own the building or the land without sufficient time to amortize the investment and yield a sufficient return over the life of the lease.
- ❖ The only collateral for the lender is the time value of the lease
- ❖ Typical amortization period at Love Field and other comparable airports is 30 years.



# Aviation Department Lease Policies

## Commercial Airport Tenant Capital Improvement Funding Amortization Comparisons

<u>HUB*</u>	<u>Airport</u>	<u>Amortization Period (Years)</u>
❖ <b>MH</b>	<b>Dallas Love Field</b>	<b>30</b>
❖ LH	DFW International Airport	40
❖ LH	Chicago Midway	30
❖ LH/MH	Houston Airport System (Intercontinental/Hobby)	30
❖ LH	Tampa International Airport	20-30
❖ LH	Miami International	20-30
❖ LH	Lambert St. Louis	30
❖ LH	Phoenix Sky Harbor	25-35
❖ LH	Sacramento International	30
❖ NH	Burbank (Bob Hope)	20-30
❖ MH	Albuquerque International Sunport	17-35



# Aviation Department Lease Policies

## Commercial Airport Tenant Capital Improvement Funding Amortization Comparisons

<u>HUB*</u>	<u>Airport</u>	<u>Amortization Period (Years)</u>
❖ MH	General Mitchell International (Milwaukee, WI)	30
❖ MH	Reno/Tahoe International	30
❖ MH	Jacksonville International	20-30
❖ MH	Indianapolis International	15-60
❖ SH	Williams Gateway Airport (Mesa, AZ)	30
❖ SH	Little Rock	30

❖ The Aviation Department surveyed 30 commercial airports and received responses from the 16 commercial airports listed above

❖ \*Airport size defined by the American Association of Airport Executives (AAAE):  
LH – Large HUB; MH – Medium HUB; SH – Small HUB; NH – Non HUB; based on multiple factors including number of enplaned passengers, revenue production, land size of airport, number of commercial flights and others



# Aviation Department Lease Policies

## Local General Aviation Airport Tenant Capital Improvement Funding Amortization Comparisons

<u>Airport</u>	<u>Amortization Period (Years)</u>
<b>Dallas - Love Field/Executive Airport</b>	<b>30</b>
Addison	30-40
Arlington	30
Denton	30
Rockwall	40
Mesquite	40
Lancaster	30
Collin County Regional (McKinney)	40
Grand Prairie	30
Alliance	40
Meacham	40



# TXI Aviation I, L.L.C.

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## **TXI Aviation I, L.L.C. Lease Proposal**



# TXI Aviation I, L.L.C. Proposal

## Existing Lease

- ❖ 30-year Primary Term commenced on November 1, 1986 will expire on October 31, 2016
- ❖ Plus, two 5-year options to extend lease through October 31, 2026 (at TXI's option)
- ❖ Ground rent only for Primary Term - 30-year amortization:

❖	124,030.92 SF @ \$.2240/sf/yr – Impvd. Grnd.	= \$ 27,782.93
	30,000.00 SF @ \$.2240/sf/yr – Hgr./Off. Space	= \$ 6,720.00
	<u>14,000.00 SF @ \$.2240/sf/yr – FBO/Off. Space</u>	= <u>\$ 3,136.00</u>
Total	168,030.92 SF	\$ 37,638.93, annually
- ❖ Rent Escalations -

Every three years to prevailing rates not to exceed 12%. Rent escalated on November 1, 2004 (due to increase in the Airport's prevailing rental rate, effective March 1, 2003)

Rent escalates to prevailing rates for land and improvements upon commencement of option periods
- ❖ Improvements made by lessee -

\$2,600,000 within 24 months from November 1, 1986  
44,000 square foot hangar/office facility



# TXI Aviation I, L.L.C. Proposal

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## ❖ Existing Lease Proposed Amendment

- ❖ Delete two 5-year options
- ❖ Extend the Primary Term to May 1, 2048 (net increase of approximately 21 years and 6 months)
- ❖ Expend not less than \$1,000,000 on new capital improvements within 24 months
- ❖ The capital improvements will include a new approximately 15,000 square foot hangar facility within the 24 months
- ❖ Maintain existing rental rate escalations through October 31, 2026



# TXI Aviation I, L.L.C. Proposal

## Existing Lease Proposed Amendment

- ❖ November 1, 2026 rental rate escalations change to every three years based on the greater of i) three percent (3%) or ii) the aggregate increases in the Consumer Price Index over the previous three-year period, provided no escalation shall exceed twelve (12) percent
- ❖ November 1, 2016 rental rates for land and improvements escalate to prevailing rates, except those improvements constructed by lessee after the effective date of this lease amendment (e.g. 15,000 sq. ft. hangar)
- ❖ May, 1, 2037 rent for all improvements constructed after the effective date of this lease amendment will escalate to the airport's prevailing rental rates (30-year amortization) beginning the 31<sup>st</sup> year of the amendment (e.g. 15,000 sq. ft. hangar)





# TXI Aviation I, L.L.C. Proposal

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## ❖ New Lease Proposal

- ❖ The leased premises is approximately 104,469 square feet (2.4 acres) of unimproved land
- ❖ 40-year lease term is estimated to begin on or about May 1, 2008 and expire on or about April 30, 2048 (See below)
- ❖ Within 24 months from the effective date of the new lease, Lessee agrees to expend not less than \$2,500,000 on capital improvements
- ❖ The capital improvements shall include a new approximately 30,000 square foot hangar facility
- ❖ Term and payment of rent will begin i) twelve (12) months from the effective date of the new lease or ii) when the lessee occupies the new hangar, whichever date occurs first



# TXI Aviation I, L.L.C. Proposal

## ❖ New Lease Proposal

- ❖ Initial annual rent for the 104,469 square feet of unimproved land will be \$40,430, based on \$.32/sf/yr
- ❖ When construction of improvements on all or any part of the leased premises are complete, rental rates will escalate to \$.46/sf/yr for any improved portion of the premises
  - ❖ Transportation and Environment Committee recommended after completion of construction the leased land that remains unimproved should also escalate to the improved ground rental rate due to its diminished utility
- ❖ Rental rates subject to escalations every three years based on the greater of i) three percent (3%) or ii) the aggregate increases in the Consumer Price Index over the previous three-year period, provided no escalation shall exceed twelve percent (12%)
- ❖ Rent for all land and improvements constructed after the effective date of the lease will escalate to the airport's prevailing rental rates (30-year amortization) beginning the 31<sup>st</sup> year of the lease (e.g. 30,000 sq. ft. hangar)



# TXI Aviation I, L.L.C. Proposal

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## ❖ New Lease Proposal

- ❖ The property is partially landlocked and is only accessible from three existing lease properties; i) Southwest Airlines Co. fuel facility, ii) Reeves Street L.L.C. (Dean Foods) and iii) TXI Aviation I, L.L.C. existing leased premises
  - ❖ Southwest Airlines Co. has indicated they do not have a need for this property
  - ❖ Reeves Street L.L.C. did not express an interest in leasing this property when their lease was negotiated in 2003
- ❖ The existing lease and the new lease will be tied together and a default or lease termination of one lease would automatically apply to the other lease



# TXI Aviation I, L.L.C. Proposal

## ❖ Lease Revenue

- ❖ Maintain Existing Lease (2007 – 2026)
  - ❖ \$2,277,465
  
- ❖ Proposed Revenue From Amended Lease (2027 – 2048)
  - ❖ \$5,734,058
  
- ❖ Proposed Amended Lease and New Lease (2007 – 2048)

❖ Amended Lease	-	\$ 8,011,523
❖ New Lease	-	<u>\$ 2,967,605</u>
❖ TOTAL		\$10,979,128



# TXI AVIATION I, L.L.C.



Image © 2006 Sanborn

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3242 ft

Pointer 32°50'51.51" N 96°50'56.61" W

Streaming ||||| 100%

Eye alt 11218 ft



# TXI AVIATION 1, L. L. C.



**New Lease Premises**

**Existing Lease Premises**



# Recommendation

- Staff recommends approval of the TXI Aviation I, L.L.C. lease amendment and new lease
  - All components of this item will conform to the Real Estate Task Force recommendations and Aviation Department policies
  - Approval of this lease amendment and new lease will increase TXI Aviation I, L.L.C. capital commitment at Love Field by \$3,500,000 from \$2,600,000 to \$6,100,000
  - Approval of this lease amendment and new lease will permit the City to convert a non-revenue producing piece of property into a revenue producing asset
  - Approval of this lease amendment and new lease will increase TXI Aviation I, L.L.C. revenue by approximately \$8,701,663 from \$2,277,465 to \$10,979,129

- **NEXT STEPS**

April 11, 2007 - Seek Council's approval



# QUESTIONS AND ANSWERS

