

Memorandum



CITY OF DALLAS

DATE June 13, 2008

TO Economic Development Committee:
Ron Natinsky (Chair), Tennell Atkins (Vice Chair), Jerry R. Allen, Dwain R. Caraway, (Deputy Mayor Pro Tem), Sheffie Kadane, Linda Koop Mitchell Rasansky, Steve Salazar

SUBJECT Gulfstream Aerospace Services Corporation Proposed Consolidated Lease at Love Field

Attached are the briefing materials on the Department of Aviation Gulfstream Aerospace Services Corporation Proposed Consolidated Lease at Love Field to be presented to the Economic Development Committee on Monday, June 16, 2008 and Thursday, June 19, 2008.

Please let me know if you should need additional information.

A handwritten signature in black ink, appearing to read 'Ramon F. Miguez'.

Ramon F. Miguez, P.E.
Assistant City Manager

Attachment

c: The Honorable Mayor & Members of the City Council
Mary K. Suhm, City Manager
Deborah Watkins, City Secretary
Tom Perkins, City Attorney
Craig D. Kinton, City Auditor
Judge Jay Robinson, Judiciary
Ryan S. Evans, First Assistant City Manager
A.C. Gonzalez, Assistant City Manager
David O. Brown, Interim Assistant City Manager
Jill A. Jordan, P. E., Assistant City Manager
David K. Cook, Chief Financial Officer

Gulfstream Aerospace Corporation

Proposed Consolidated Lease At Love Field

**Briefing to the Council
Economic Development Committee**



Department of Aviation

June 16, 2008



Purpose

- ❖ To review the proposed consolidation of two existing Gulfstream leases at Love Field into one lease, which will extend the term and foster the continued growth of Gulfstream Aerospace operations and employment opportunities at Love Field.

Proposed Gulfstream Consolidated Lease



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3242 ft

Pointer 32°50'51.51" N 96°50'56.61" W

Streaming 100%

Eye alt 11218 ft



Gulfstream Proposed Consolidated Lease



Tract 2

Gulfstream Proposed Consolidated Lease



Tract 1

Gulfstream New Ground Lease Council Approved June 2007



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Recent Council Actions



- ❖ June 2007 – Council approved Resolution No. 07-1858 & 07-1859, authorizing approval of the Ground Lease with a \$40 million capital commitment and \$150,000 economic development grant
 - ❖ The Ground Lease was made contingent upon combining the existing lease and existing sublease into one Consolidated Lease
 - ❖ Rate Agreement for the Consolidated Lease
 - ❖ Initial rent would be prevailing rates
 - ❖ Upon Council approval of new prevailing rates, rent will adjust to new prevailing rates in accordance with the lease
- ❖ December 2007 – Council approved Resolution No. 07-3770 which amended the previously approved resolution by reducing Gulfstream’s capital commitment in the Ground Lease from \$40 million to \$20 million

Proposed Consolidated Lease



- ❖ 20 year Primary Term, plus four 5-year options
- ❖ 618,888 SF (two separate tracts – 14.2 acres)
- ❖ Gulfstream granted 10-year Right of First Offer (“ROFO”) to lease land adjacent to Gulfstream’s existing lease premises
 - ❖ Approximately 7 acres
 - ❖ 10 years at \$5,000 annually

Proposed Consolidated Lease



Initial Annual Lease Rates and Rent

	SQUARE FEET	ANNUAL LEASE RATE/SF	ANNUAL RENT
❖ Tract 1 -			
❖ improved land	55,786	\$0.46	\$ 25,662
❖ Hangar A & B	86,480	\$2.24	\$193,715
❖ Hangar A & B Office	29,540	\$5.09	\$150,359
❖ Hangar C	39,815	\$2.24	\$ 89,186
❖ Improved Land	214,504	\$0.46	\$ 98,672
❖ Tract 2 -			
❖ Hangar D & E	85,134	\$0.87	\$ 74,067
❖ Hangar D & E Office	30,886	\$0.00	\$ 0
❖ Improved Land	<u>137,169</u>	\$0.87	<u>\$119,337</u>
❖ TOTAL	679,314*		\$750,996

(*includes 2nd floor office space – 60,426 sf)

Proposed Consolidated Lease



❖ Rental Escalations*

- ❖ Tract 1 – **increase to current rate study with a 12% cap**, then every three years thereafter, Tract I rent shall be escalated by the greater of:
 - ❖ (i) the current rate study with a 12% cap or,
 - ❖ (ii) the percentage change in the CPI index over the previous three-year period, with a 12% cap.

- ❖ Tract 2 – will escalate annually through May 31, 2023 based on the existing method in the sublease.
 - ❖ Commencing June 1, 2023, rent escalations for Tract 2 will convert to the same as Tract 1 leased premises above.

*See Appendix Page 11 for details

Recommendation

- ❖ Staff recommends approval of the Gulfstream Aerospace Corporation Consolidated Lease
 - ❖ Approval of the proposed Consolidated Lease will permit the City to retain a major employer in the City of Dallas
 - ❖ Approval of this item will increase the City's total annual rental revenue from Gulfstream's existing lease and sublease by \$370,571 from \$380,425 to approximately \$750,996

- ❖ NEXT STEPS
 - ❖ June 25, 2008 - Seek Council's approval

QUESTIONS AND ANSWERS



Appendix

- ❖ Recent History

- ❖ 1978 Lease details

- ❖ 1989 Sublease details

- ❖ Proposed Consolidated Lease Rental Rate Escalation Detail

Gulfstream 1978 Lease



Term:

10 year – commenced Feb. 1, 1978

Options:

4 – 5 year options

Currently in last option period

Lease expired on January 31, 2008, holding over month-to-month

Rent:

\$234,488, annually

363,217 sf (ramp) at \$.35/sf/yr

85,000 sf (hangar) at \$.35/sf/yr

35,475 sf (hangar) at \$2.24/sf/yr

483,692 sf - Total land under lease

Gulfstream 1989 Sublease



Term:

10 year – commenced Jun 1, 1989

Options;

4 - 5 year and 1- 4 year option

2nd Option will expire on May 31, 2009

Rent:

\$145,937, annually

85,000 sf (hangar) at \$.80/sf/yr

158,800 sf (ramp) at \$.49/sf/yr

243,800 sf - Total land under lease

Proposed Consolidated Lease Rental Rate Escalation Detail

❖ Rental Escalations

- ❖ From time to time, the City performs a rate study to determine the appropriate rental rates (a “Rate Study”), and that the City is in the process of performing a Rate Study with respect to the leased premises (the “Current Rate Study”). Upon approval of the Current Rate Study by the City Council, all components of rent in the approved Current Rate Study that are greater than the amounts then in effect for Tract 1 leased premises shall immediately adjust to the amounts set forth in the Current Rate Study; provided, however, that in no event shall any component of rent escalate in an amount greater than twelve percent (12%) of the amount set forth above.
- ❖ Commencing as of the third anniversary date after the Effective Date of the Lease and adjusted on each successive third year anniversary date thereafter, including the option periods, rent paid to the City by Gulfstream for Tract I shall be escalated by whichever adjustment is greater: (i) all components of rent in the approved Current Rate Study that are greater than the amounts that Lessee is then paying shall adjust to the amounts set forth in the Current Rate Study, or (ii) the percentage change in the CPI index over the previous three-year period; however, the aggregate escalation for any three-year period shall not exceed twelve percent (12%).
- ❖ Rent for Tract 2 will escalate annually through May 31, 2023 based on the existing method in the sublease which is the Producers Price Index. Commencing June 1, 2023, rent escalations for Tract 2 will convert to the same as Tract 1 leased premises.