

KEY FOCUS AREA: Economic Vibrancy
AGENDA DATE: November 14, 2012
COUNCIL DISTRICT(S): 14
DEPARTMENT: Aviation
CMO: A. C. Gonzalez, 671-8925
MAPSCO: 34B

SUBJECT

Authorize **(1)** a forty-year lease agreement of approximately 635,538 square feet of land for aviation use development with a capital commitment of \$9,000,000 to be expended within 24 months from the effective date of the lease with an additional \$4,000,000 to be expended within 10 years; and **(2)** a forty-year lease agreement of approximately 414,600 square feet of land for commercial development with a total capital commitment of \$8,000,000 to be expended within 24 months from the effective date of the lease with Reed Enterprises Investment Holdings, LP at Dallas Love Field - Estimated Annual Revenue: \$926,238

BACKGROUND

The Aviation Department is currently in the process of demolishing the existing improvements on a 26 acre tract of land at Dallas Love Field commonly referred to as the former Dalfort Aerospace facility lease. Upon completion of demolition, estimated to be January 2014, Reed Enterprises Investment Holdings, LP has offered to lease and develop the property under two separate lease agreements. Below are the general terms and conditions of both leases.

BACKGROUND (Continued)

Aviation Lease

The aviation lease will have a term of forty years and consist of approximately 635,538 square feet of land having a lease rate based on the current prevailing annual rental rate at Dallas Love Field of \$.40 per square foot for unimproved land and \$.65 per square foot for improved land. Total estimated annual revenue under the aviation lease is \$404,429 (600,858 sq. ft. improved land and 34,680 sq. ft. unimproved land). Payment of rent and the lease term shall commence fourteen months from the effective date of the lease. Rent will escalate every three years by the greater of: (1) the percentage increase in the Consumer Price Index over the previous 3-year period, (2) the prevailing rental rate for similar premises at the airport, or (3) 6%, provided, no single escalation shall exceed 12% from the previous 3-year period. Commencing the 31st year of the lease, the City will begin collecting rent on the improvements constructed by lessee at the then prevailing rental rates for such improvements at Dallas Love Field. The lease will have an initial capital commitment of \$9,000,000 to be expended within 24 months from the effective date of the lease for the construction of aviation hangars and a fuel farm and an additional capital commitment of \$4,000,000 to be expended within 10 years from the effective date of the lease. Total capital commitment in the aviation lease is \$13,000,000. Title to all newly constructed improvements will vest in the City upon completion of construction.

Commercial Lease

The commercial lease will consist of approximately 414,600 square feet of land having an annual ground lease rate based on appraised market value supported by a broker's opinion of value of \$.75 per square foot for unimproved and improved land and \$240,000 annual rent for the existing parking garage. Total estimated annual revenue under the commercial lease is \$521,809 which is based on \$.75 per square foot, less 38,854 square feet footprint of the parking garage, plus the parking garage revenue. Payment of rent and the lease term shall commence fourteen months from the effective date of the lease. Rent will escalate every three years by the percentage increase in the Consumer Price Index over the previous 3-year period with a provision that the rent will not be reduced if a negative Consumer Price Index calculation is recorded, or a maximum of two percent (2%) per year, whichever is lesser, provided, any Consumer Price Index increase that exceeds the maximum two percent (2%) per year for any given 3-year period shall be paid by lessee by spreading the excess amount evenly over the following five year term of the lease. Beginning the 20th year of the lease, the City will receive percentage rental equal to the excess, if any, of: (1) 10% of gross rentals collected by lessee under subleases of the property over (2) the amount of base rental otherwise payable by lessee for the same period excluding automotive use subleases when the sublease is an affiliate or subsidiary of lessee. The lease will have a total capital commitment of \$8,000,000 to be expended within 24 months from the effective date of the lease. The lessee proposes to develop the site with an automobile dealership consisting of a new car showroom, body shop, service center and parking.

BACKGROUND (Continued)

Upon completion of construction the lessee will retain ownership of the permanent improvements through the remainder of the lease term, which will be subject to ad valorem property taxes. At the expiration of the lease term, the City retains the right to require the lessee, at lessee's expense, to demolish the improvements or leave them in place. The lessee shall also be granted a Right of First Refusal to lease the two office buildings and adjacent land currently leased to Signature Flight Support Corporation if/when the property becomes available to lease.

The City remains responsible for environmental clean-up and remediation of environmental contaminants, not caused by lessee, after the City's initial demolition of the structural improvements. If, during lessee's construction of new improvements on the leased premises, environmental contaminants requiring remediation are found on the site which the City is responsible, the lessee may remediate the site to acceptable levels and the City shall reimburse lessee the cost of such remediation through rent abatements in an amount not to exceed one year's rent under both leases.

During the 36th year of the primary term of both leases, the City and lessee agree to enter negotiations regarding possible extension of the term of the Leases for additional periods of ten (10) years each. If no agreement on an acceptable extension of the primary term is reached by the commencement of the 37th year of the primary term, lessee shall have the option to terminate the leases before the end of the primary term with written notice to the Director; provided, however, such written notice is given to the Director not less than one hundred and eighty (180) days prior to lease termination. If no agreement to extend the term of the leases is reached and Lessee does not terminate the leases before the end of the primary terms, the lessee, shall retain a right of first refusal during the remainder of the primary term to match or exceed any confirmed third party offer received and acceptable by the City to lease the leased premises commencing after the end of the primary term.

The Texas Historical Commission is reviewing an application to designate the property a historical site. The review process is expected to be completed by the end of this year. In the event the Texas Historical Commission designates the leased premises a historical site, both the Aviation Lease and the Commercial Lease shall be rendered null and void as of the date of such designation. The Aviation Lease and the Commercial Lease are also subject to approval by the Federal Aviation Administration.

Total annual revenue is \$926,238 and total capital commitment under both leases is \$21,000,000. Approval of this item will convert a non-revenue producing asset into a revenue producing amenity to the City.

PRIOR ACTION / REVIEW (COUNCIL, BOARDS, COMMISSIONS)

This item has no prior action.

FISCAL INFORMATION

\$926,238 - Estimated Annual Revenue

OWNER

Reed Enterprises Investment Holdings, LP, a Texas limited partnership

Reed Enterprises Management, LLC, General Partner
Randall L. Reed, Manager

MAP

Attached.

**RRCP Limited Partnership
General Location
Dallas Love Field**



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WHEREAS, Reed Enterprises Investment Holdings, LP (“Lessee”) has offered to lease approximately 1,050,138 square feet of land and improvements under two separate forty-year lease agreements to develop aviation facilities (the “Aviation Lease”) containing approximately 635,538 square feet and non-aviation facilities (the “Commercial Lease”) containing approximately 414,600 square feet; and,

WHEREAS, Lessee shall expend not less than \$17,000,000 in new capital improvements on the leased premises within twenty-four months from the effective date of the leases and an additional \$4,000,000 to be expended within 10 years from the effective date of the leases; and,

WHEREAS, the City and Lessee desire to enter into two forty-year lease agreements for land at Dallas Love Field containing approximately 1,050,138 square feet or 24.108 acres.

Now, Therefore,

BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF DALLAS:

Section 1. That the proposed Aviation Lease for a primary term of forty years and providing estimated annual rent in the amount of \$404,429 payable in monthly installments of approximately \$33,702 and the Commercial Lease for a primary term of forty years and providing estimated annual rent in the amount of \$521,809 payable in monthly installments of approximately \$43,484 is hereby approved and the City Manager is authorized to execute, on behalf of the City of Dallas, the Aviation Lease and the Commercial Lease after approval as to form by the City Attorney.

Section 2. That the Aviation Lease evidences, among other things, the following terms and conditions:

- (a) The forty-year lease term and payment of rent shall commence the 14th month following the effective date of the lease.
- (b) Annual rent will be based on the current prevailing annual rental rate at Love Field of \$.40 per square foot for unimproved land and \$.65 per square foot for improved land.

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- (c) Rent payable to the City will escalate every three years by the percentage increase in the Consumer Price Index over the previous 3-year period with a provision that the rent will not be reduced if a negative Consumer Price Index calculation is recorded, or a maximum of two percent (2%) per year, whichever is lesser, provided, any Consumer Price Index increase that exceeds the maximum two percent (2%) per year for any given 3-year period shall be paid by lessee by spreading the excess amount evenly over the following five year term of the lease.
- (d) Commencing the 31st year of the lease, the City will begin collecting rent on the improvements constructed by lessee at the then prevailing rental rates for such improvements at Dallas Love Field.
- (e) The lease will have an initial capital commitment of \$9,000,000 to be expended within 24 months from the effective date of the lease for the construction of aviation hangars and a fuel farm and an additional capital commitment of \$4,000,000 to be expended within 10 years from the effective date of the lease. Total capital commitment in the aviation lease is \$13,000,000.
- (f) Title to all newly constructed improvements will vest in the City upon completion of construction.

Section 3. That the Commercial Aviation Lease evidences, among other things, the following terms and conditions:

- (a) The forty-year lease term and payment of rent shall commence the 14th month following the effective date of the lease.
- (b) Annual rent will be \$.75 per square foot for unimproved and improved land.
- (c) Rent payable to the City will escalate every three years by the percentage increase in the Consumer Price Index over the previous 3-year period with a provision that the rent will not be reduced if a negative Consumer Price Index calculation is recorded, or a maximum of two percent (2%) per year, whichever is lesser, provided, any Consumer Price Index increase that exceeds the maximum two percent (2%) per year for any given 3-year period shall be paid by lessee by spreading the excess amount evenly over the following five year term of the lease.

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- (d) Beginning the 20th year of the lease, the City will receive percentage rental equal to the excess, if any, of: (1) 10% of gross rentals collected by lessee under subleases of the property over (2) the amount of base rental otherwise payable by lessee for the same period excluding automotive use subleases when the sublease is an affiliate or subsidiary of lessee.
- (e) The lease will have a total capital commitment of \$8,000,000 to be expended within 24 months from the effective date of the lease. The lessee proposes to develop the site with an automobile dealership.
- (f) Upon completion of construction the lessee will retain ownership of the permanent improvements through the remainder of the lease term, which will be subject to ad valorem property taxes. At the expiration of the lease term, the City retains the right to require the lessee, at lessee's expense, to demolish the improvements or leave them in place.
- (g) The lessee shall also be granted a Right of First Refusal to lease the two office buildings adjacent land currently leased to Signature Flight Support Corporation if/when the property becomes available to lease.

Section 4. The exact size of the proposed lease premises in the Aviation Lease and the Commercial Lease are subject to final surveys and upon completion of such surveys and acceptance by the Director of Aviation, the annual rents, as provided in Sections 1, 2 & 3 herein, shall be adjusted accordingly.

Section 5. During the 36th year of the primary term of both leases, the City and lessee agree to enter negotiations regarding possible extension of the term of the Leases for additional periods of ten (10) years each. If no agreement on an acceptable extension of the primary term is reached by the commencement of the 37th year of the primary term, lessee shall have the option to terminate the leases before the end of the primary term with written notice to the Director; provided, however, such written notice is given to the Director not less than one hundred and eighty (180) days prior to lease termination. If no agreement to extend the term of the leases is reached and Lessee does not terminate the leases before the end of the primary terms, the lessee, shall retain a right of first refusal during the remainder of the primary term to match or exceed any confirmed third party offer received and acceptable by the City to lease the leased premises commencing after the end of the primary term.

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Section 6. The City remains responsible for environmental clean-up and remediation of environmental contaminants, not caused by Lessee, after the City's initial demolition of the structural improvements. If, during Lessee's construction of new improvements on the leased premises, environmental contaminants requiring remediation are found on the site which the City is responsible, the Lessee may remediate the site to acceptable levels and the City shall reimburse Lessee the cost of such remediation through rent abatements in an amount not to exceed one year's rent under both leases.

Section 7. In the event the Texas Historical Commission designates the leased premises a historical site, both the Aviation Lease and the Commercial Lease shall be rendered null and void as of the date of such designation.

Section 8. The Aviation Lease and the Commercial Lease are subject to approval by the Federal Aviation Administration.

Section 9. That the City Controller be and is hereby authorized to deposit all revenues received under the Aviation Lease and the Commercial Lease to: Aviation Operating Fund 0130; Dept. AVI; Unit 7722; Revenue Source 7814.

Section 10. That this resolution shall take effect immediately from and after its passage in accordance with the provisions of the Charter of the City of Dallas and it is accordingly so resolved.