

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 23-0206

APPROVAL OF MODIFICATION NO. 4 TO LEASE NO. 13-0071 WITH AMERICAN AIRLINES, INC. FOR A TWO-YEAR TERM EXTENSION

WHEREAS, on April 2, 2013, by Resolution No. 13-0071, the Airport Commission (Commission) approved Lease No. 13-0071 (Lease) with American Airlines, Inc. (American) for a portion of property commonly referred to as the “Superbay Hangar” located at 1060 North Access Road, San Francisco, CA on Plot 40 (Premises), which is used for aircraft maintenance, aircraft parking, ground service equipment maintenance, and employee parking; and

WHEREAS, on November 1, 2013, by Resolution No. 370-13, the Board of Supervisors (Board) approved the Lease; and

WHEREAS, on September 6, 2016, by Resolution No. 16-0240, the Commission approved Modification No. 1 to the Lease, pursuant to which the Premises was to be reduced to accommodate an Airport project, which was subsequently rescinded due to unforeseen circumstances, and superseded by Modification No. 2, which was approved by the Commission on January 17, 2017, Resolution No. 17-0011, and by the Board on February 13, 2018, by Resolution No. 0039-18; and


WHEREAS, on September 18, 2018, by Resolution No. 18-0306, the Commission approved Modification No. 3 to the Lease, pursuant to which the Term of the Lease was extended by four years and a portion of the Premises was recaptured in support of an Airport project, and on November 27, 2018, by Resolution No. 406-18, the Board approved the Modification; and

WHEREAS, the Lease term expired on June 30, 2023, and City and American have agreed to the terms of Modification No. 4 to the Lease to: (i) extend the term for two years; (ii) set initial extension rent to the appraised rent and provide for annual rent adjustments during the extension term; and (iii) update certain legal provisions required by applicable local, state, and federal laws; now, therefore, be it

RESOLVED, that this Commission hereby (i) approves Modification No. 4 to the Lease, as summarized above and in the Director’s memorandum accompanying this Resolution, and (ii) directs the Commission Secretary to forward Modification No. 4 to the Board of Supervisors for approval pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of _____

AUG 15 2023


Secretary



MEMORANDUM

August 15, 2023

TO: AIRPORT COMMISSION
Hon. Malcolm Yeung, President
Hon. Everett A. Hewlett, Jr., Vice President
Hon. Jane Natoli
Hon. Jose F. Almanza

23-0206

AUG 15 2023

FROM: Airport Director

SUBJECT: Approval of Modification No. 4 to Lease No. 13-0071 with American Airlines, Inc. for a Portion of the Plot 40 Superbay Hangar

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 4 TO LEASE NO. 13-0071 WITH AMERICAN AIRLINES, INC. FOR A PORTION OF THE PLOT 40 SUPERBAY HANGAR TO EXTEND THE TERM FOR TWO YEARS, AND DIRECT THE COMMISSION SECRETARY TO SEEK APPROVAL FROM THE BOARD OF SUPERVISORS UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

Under Lease No. 13-0071 (Lease), American Airlines, Inc. (American) leases the following premises on Plot 40 at San Francisco International Airport (SFO or Airport): (i) approximately 127,900 square feet of hangar space on the 1st floor of the Superbay Hangar, (ii) 38,900 square feet of office and support space on the 2nd and 4th floors, (iii) 11,500 square feet of ground services equipment (GSE) shop area, (iv) 17.40 acres of land on Plot 40 for aircraft parking, (v) 4.99 acres of land for employee parking, and (vi) 1.5 acres of land for a non-exclusive aircraft wash rack (Premises). The Premises is used for aircraft maintenance, aircraft parking, GSE maintenance, and employee parking. The Lease expired on June 30, 2023 and is currently on a month-to-month holdover.

Staff requests that the Airport Commission (Commission) approve Modification No. 4 to the Lease, which will: (i) extend the term for two years, (ii) provide for rent adjustments during the extension term, and (iii) update certain legal provisions required by applicable local, state, and federal laws. All other terms and conditions will remain unmodified. Modification No. 4 must receive the approval of the Board of Supervisors (Board) under Section 9.118 of the Charter of the City and County of San Francisco.

THIS PRINT COVERS CALENDAR ITEM NO. 16

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED
MAYOR

MALCOLM YEUNG
PRESIDENT

EVERETT A. HEWLETT, JR.
VICE PRESIDENT

JANE NATOLI

JOSE F. ALMANZA

IVAR C. SATERO
AIRPORT DIRECTOR

Background

On April 2, 2013, by Resolution No. 13-0071, the Commission awarded the Lease to American. On October 22, 2013, by Resolution No. 370-13, the Board of Supervisors approved the Lease.

Pursuant to the Lease, American's Premises is comprised of the eastern half of the Superbay and appurtenant land at Plot 40.

American also utilizes an aircraft and equipment wash rack area, situated on approximately 1.5 acres of land, on a non-exclusive basis.

The Lease has an initial term of three years, which was extended by four years and eight months to June 30, 2023 pursuant to Modification No. 3. The Annual Rent effective November 1, 2022 is \$6,946,755.08

The City's Real Estate Division appraised the Premises in February 2023 and found the fair annual market rent to be equal to \$7,240,000. Modification No. 4 will set the initial extension term rent to this amount and provide for an adjustment by the Consumer Price Index for Year Two of the extension term.

American and the Airport have been in discussions for a new long-term Lease of the Superbay Premises. These discussions will need more time to become finalized. American and the Airport have agreed to extend the term of the current Lease for two years. As such, Staff believes this extension to be in the best interest of the Airport.

Proposal

Staff and American negotiated the terms of Modification No. 4 as follows:

- (i) **Extension Term:** One 2-year extension commencing on the Effective Date, occurring on the first day of the month immediately following the later to occur of (i) Commission and Board approvals of Modification No. 4, and (ii) the execution of Modification No. 4 by both the City and American.
- (ii) **Annual Rent Adjustments:** As of the Effective Date, Base Rent during the first extension year is set at \$7,240,000 per year based upon a recent RED appraisal. Base Rent will be adjusted to reflect any increase in Consumer Price Index (CPI) on the first anniversary of the Effective Date.
- (iii) **Updates to Local, State, and Federal Law Provisions:** Modification No. 4 will update the Lease to comply with all applicable local, state, and federal laws.

All other terms and conditions of the Lease will remain unmodified and in full force and effect. The Lease is currently on a month-to-month holdover until the commencement of the extension term under Modification No. 4.

Recommendation

I recommend the Commission adopt the accompanying Resolution (1) approving Modification No. 4 to Lease No. 13-0071 with American Airlines, Inc. for a portion of the Plot 40 Superbay Hangar, and (2) directing the Commission Secretary to request approval of the Modification from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

Prepared by: Kevin Bumen
Chief Financial and Commercial Officer

Attachments

