



San Francisco International Airport

**MEMORANDUM**

April 2, 2013

TO: AIRPORT COMMISSION  
Hon. Larry Mazzola, President  
Hon. Linda S. Crayton, Vice President  
Hon. Eleanor Johns  
Hon. Richard J. Guggenhime  
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Lease with American Airlines, Inc. for the Southeast Half of the SuperBay Hangar at Plot 40

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO:  
1) APPROVE A NEW FACILITY LEASE WITH AMERICAN AIRLINES, INC. FOR THE SOUTHEAST HALF OF THE SUPERBAY HANGAR AND APPURTENANT LAND ON PLOT 40, AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

**Executive Summary**

Pursuant to Lease No. L04-0221, between the City and American Airlines, Inc. ("American"), American leases approximately 166,800 square feet of hangar space in the SuperBay Hangar ("SuperBay") situated on approximately 20 acres of land at Plot 40. This site is also used for aircraft parking and vehicle parking for employees working at the SuperBay. There is another 3.58 acres of land for non-SuperBay employee parking; and 11,500 square feet of ground service equipment ("GSE") maintenance shop space. American is also granted the non-exclusive right to utilize an aircraft and equipment wash rack situated on approximately 1.50 acres of land. The Lease expired on June 30, 2009 and reverted to hold over status. The current rent is \$3,872,890 per year.

American wishes to continue occupancy of the SuperBay facilities and land for American's aircraft maintenance, aircraft parking, GSE related activities, and employee parking pursuant to a new lease (the "Lease") with a term of three (3) years with two (2) one-year options to extend, to be effective the later of July 1, 2013 or upon full approval by the City. The annual rent will be \$4,355,869 based on a negotiated fair market value, in conjunction with a reappraisal by the City's Real Estate Department, which reflects an increase of approximately twelve percent (12%).

THIS PRINT COVERS CALENDAR ITEM NO. 2

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

EDWIN M. LEE  
MAYOR

LARRY MAZZOLA  
PRESIDENT

LINDA S. CRAYTON  
VICE PRESIDENT

ELEANOR JOHNS

RICHARD J. GUGGENHIME

PETER A. STERN

JOHN L. MARTIN  
AIRPORT DIRECTOR

On November 29, 2011, American filed for Chapter 11 bankruptcy protection. Since then, American has maintained their account in good standing. Staff has been advised that American may enter into new leases in their normal course of business; therefore, staff is seeking Commission approval of the Lease which, by reference, will be included in the Cure Stipulation Agreement now under negotiation with American. American has indicated they wish to continue operations at the Airport.

### **Background**

Pursuant to Lease No. L04-0221, between the City and American, American occupies the southeastern half of the SuperBay and appurtenant land at Plot 40 as follows (Note: all units are approximate):

- 127,900 square feet of first floor hangar space;
- 38,900 square feet of upper floor hangar space;
- 20 acres of appurtenant land for aircraft parking and employee vehicle parking;
- 3.58 acres of land for non-SuperBay employee vehicle parking; and
- 11,500 square feet of GSE maintenance shop space.

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

The approved uses include various aviation related functions including aircraft maintenance, aircraft parking, GSE related activities, support offices, and employee parking for employees working at the SuperBay and employees working at terminal locations. The lease had a term of approximately 4.5 years, commencing January 1, 2005, with one (1) five-year option to extend. American failed to exercise the option due to a corporate review of its nationwide facility needs that was in progress and, in lieu, requested continued occupancy on a hold over basis effective July 1, 2009, which request was approved. The current rent is \$3,872,890 per year.

American wishes to continue occupancy of the SuperBay facilities and land for aircraft maintenance, aircraft parking, GSE related activities, and employee parking pursuant to a Lease with a term of three (3) years with two (2) one-year options to extend the term, to be effective the later of July 1, 2013 or upon full approval by City. The annual rent will be \$4,355,869, which reflects an increase of approximately twelve percent (12%) and based on a negotiated fair market value, in conjunction with a reappraisal by the City's Real Estate Department.

There are no substantive changes to American's proposed use and occupancy of the SuperBay. For the purposes of rate setting, however, the parties have agreed to consolidate the two parcels of land used for employee vehicle parking, which are segregated in the current lease.

On November 29, 2011, American filed for Chapter 11 bankruptcy protection. Since then, American has maintained their account in good standing and has paid all post-bankruptcy

invoices in a timely manner. Staff has been advised that American may enter into new leases in their normal course of business; therefore, staff is seeking Commission approval of the Lease which, by reference, will be included in the Cure Stipulation Agreement now under negotiation with American. American has indicated they wish to continue operations at the Airport.

### **Proposal**

Staff has negotiated the Lease with proposed business terms as follows:

1. **Approved Use:** Aircraft maintenance, aircraft parking and movement, GSE related activities, storage, related support operations, and employee vehicle parking.
2. **Premises:** Comprised of approximately:
  - 127,900 square feet of first floor hangar space;
  - 38,900 square feet of upper floor hangar space;
  - 17.4 acres of appurtenant land for aircraft parking and movement;
  - 6.18 acres of land for employee vehicle parking; and
  - 11,500 square feet of GSE maintenance shop space.
3. **Non-Exclusive Space:** Use of an aircraft and equipment wash rack situated on 1.5 acres of land.
4. **Term:** Three (3) years
5. **Option Term:** Tenant is granted two (2) one-year options to extend the term conditioned upon six months prior written notice.
6. **Commencement Date:** The later of July 1, 2013 or upon full approval by City.
7. **Expiration Date:** The last day of the thirty sixth (36<sup>th</sup>) month following the Commencement Date.
8. **Annual Rent:** Four Million Three Hundred Fifty Five Thousand Eight Hundred Sixty Nine Dollars (\$4,355,869).
9. **Rental Rate:** Based on a negotiated fair market value as follows:

First Floor Hangar Space	127,900 square feet @ \$24.56 per square foot per year
Upper Floor Hangar Space	38,900 square feet @ \$16.45 per square foot per year
Note: The first floor rate includes the value of the 17.4 acres of appurtenant land.	
Employee Vehicle Parking	6.18 acres of land @ \$93,000 per acre per year
10. **Rent Adjustment:** Annual CPI adjustments.
11. **Deposit:** Equal to three months' rent; initially \$1,088,967.
12. **Maintenance:** The City is responsible for structural maintenance. The lessee is responsible for non-structural maintenance and equipment within and surrounding the SuperBay.

American will be fully compliant with all City Regulations, including the City's Equal Benefits Ordinance, Minimum Compensation Ordinance, and the Health Care Accountability Ordinance.

**Recommendation**

I recommend adoption of the attached resolution that: 1) approves a Lease with American Airlines, Inc. for the southeast half of the SuperBay Hangar at Plot 40 and appurtenant land, commencing the later of July 1, 2013 or upon full City approval, for aviation related functions, with a term of three (3) years with two (2) one-year options and at an annual rent of \$4,355,869; and 2) directs the Commission Secretary to forward the Lease to the Board of Supervisors for approval.

  
John L. Martin For  
Airport Director

Prepared by: Leo Fermin  
Deputy Airport Director  
Business and Finance

Attachment