

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 23-0207

APPROVAL OF MODIFICATION NO. 3 TO LEASE NO. 04-0058 WITH UNITED AIRLINES, INC. FOR A TWO-YEAR TERM EXTENSION

WHEREAS, on March 12, 2004, by Resolution No. 04-0058, the Airport Commission (Commission) approved Lease No. 04-0058 (Lease) with United Airlines, Inc. (United) for a portion of the 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, and employee parking; and

WHEREAS, on April 13, 2004, by Ordinance No. 0063-04, the Board of Supervisors (Board) approved the Lease; and

WHEREAS, on September 16, 2016, by Resolution No. 16-0241, 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the Lease, pursuant to which the Premises was to be reduced to accommodate an Airport project, which was subsequently rescinded due to unforeseen circumstances, and superseded by Modification No. 2, which was approved by the Commission on January 17, 2017, by Resolution No. 17-0012, and by the Board on February 13, 2018, by Resolution No. 0040-18; and

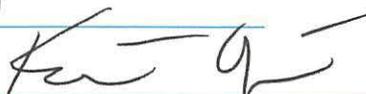
WHEREAS, the Lease term expired on June 30, 2023, and City and United have negotiated the terms of Modification No. 3 to the Lease to: (i) extend the term for two years; (ii) set an initial extension term rent to the current rent and provide for annual rent adjustments during the extension term; and (iii) update certain legal provisions required by applicable local, state, and federal laws; and

WHEREAS, all other terms and conditions of the Lease are unchanged; now, therefore, be it

RESOLVED, that this Commission hereby (i) approves Modification No. 3 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. 3 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



San Francisco International Airport

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

23-0207

— AUG 15 2023

FROM: Airport Director

SUBJECT: Approval of Modification No. 3 to Lease No. 04-0058 with United Airlines, Inc. for a Portion of the Plot 40 Superbay Hangar

DIRECTOR’S RECOMMENDATION: APPROVE MODIFICATION NO. 3 TO LEASE NO. 04-0058 WITH UNITED 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. 04-0058 (Lease), United Airlines, Inc. (United) 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) 18.40 acres of land, of which 17.14 acres are used for aircraft parking and 1.26 acres are used for employee parking, and (iii) 1.5 acres of land for an aircraft wash rack (Premises). The Premises is used for aircraft maintenance, aircraft parking, 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. 3 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 (Modification No. 3). All other terms and conditions will remain unmodified. Modification No. 3 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.

Background

On March 12, 2004, by Resolution No. 04-0058, the Commission awarded the Lease to United. On April 13, 2004, by Ordinance No. 0063-04, the Board approved the Lease.

THIS PRINT COVERS CALENDAR ITEM NO. _____

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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

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

United 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 a term of nine years and one month, with one ten-year option to extend the term. The option was exercised, and the option term expired on June 30, 2023. The current Annual Rent is \$5,563,768.73.

The City's Real Estate Division appraised the Premises in February 2023 and found the fair annual market rent to be \$5,470,000.00. Pursuant to the Lease, the annual rent for any year cannot be lower than the preceding year. Therefore, Modification No. 3 will set the initial extension term rent to the current Annual Rent of \$5,563,768.73 and provide for an adjustment by the Consumer Price Index for Year Two of the extension term.

United 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. United and the Airport have agreed to extend the term of the current Lease for two years. Staff believes this extension to be in the best interest of the Airport.

Proposal

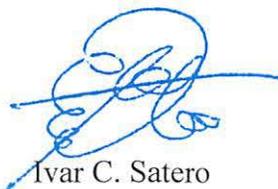
Staff and United negotiated the terms of Modification No. 3 as follows:

- (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. 3, and (ii) the execution of Modification No. 3 by both the City and United.
- (ii) **Annual Rent Adjustments:** As of the Effective Date, Base Rent during the first extension year is set to the current rent of \$5,563,768.73 per year. Each year during the extension term (commencing with the first year on the Effective Date), Base Rent is adjusted to reflect any increase in Consumer Price Index (CPI).
- (iii) **Updates to Local, State, and Federal Law Provisions:** Modification No. 3 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. 3.

Recommendation

I recommend the Commission adopt the accompanying Resolution (1) approving Modification No. 3 Lease No. 04-0058 with United 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

