



San Francisco International Airport

MEMORANDUM

September 19, 2017

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

FROM: Airport Director

SUBJECT: Ground Lease with the United States Postal Service at Plot 10F

DIRECTOR'S RECOMMENDATION: ADOPT THE ACCOMPANYING RESOLUTION TO 1) APPROVE A GROUND LEASE WITH THE UNITED STATES POSTAL SERVICE FOR APPROXIMATELY 8.61 ACRES OF LAND ON PLOT 10F, AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

The United States Postal Service ("Postal Service") currently occupies approximately 8.61 acres of land at Plot 10F to operate an International Service Center ("ISC") pursuant to Public Utilities Commission Lease No. 24392 between the United States of America and the San Francisco International Airport ("Airport"). This lease expired on August 31, 2017. The Postal Service wishes to continue the ISC operation at Plot 10F pursuant to a new ground lease with a term of five years, plus four five-year options to extend the term, exercisable at Commission's discretion, but subject to the Postal Service's approval of funding, and at an initial annual rent of \$1,445,600. The commencement date of the new ground lease will be retroactive to September 1, 2017.

Background

Under Public Utilities Commission Lease No. 24392, approved on October 20, 1964, the United States of America, leases approximately 8.61 acres of land at Plot 10F. All facilities, structures and improvements currently on the demised premises were constructed by the Postal Service; however, title to such improvements, except personal property and equipment, vested in the City at the end of the 10th year of the term of the existing lease.

THIS PRINT COVERS CALENDAR ITEM NO. 9

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

IVAR C. SATERO
AIRPORT DIRECTOR

The existing lease has a term of 10 years with eight five-year options to extend, for a total of 50 years. The last option period expired on August 31, 2017 and the lease, thereafter, reverted to hold over status. The current rent is \$1,054,674.11 per year.

The Postal Service wishes to continue occupancy of the demised premises, together with existing City owned buildings and structures, including Building 660, at Plot 10F to operate the ISC and post office pursuant to a new ground lease (the "Lease"). Staff is proposing approval of a ground lease in lieu of a facility lease in light of the Airport's potential repurposing of Plot 10F, and the facilities thereon, as a distribution center that would centralize airfield access for the Airport's concessionaire tenant's contractors and vendors. For this reason, the term is also structured such that the 5-year option periods will be at the Airport's discretion. This will provide flexibility to terminate the USPS lease if the Airport's development of the distribution center is determined to be the preferred use for Plot 10F.

The proposed term is five years with four five-year options to extend at the Commission's discretion, but subject to the Postal Service's approval of funding. The Lease will commence retroactively on September 1, 2017, upon full approval by the City of San Francisco ("City"). The annual rent for the first year of the term will be \$1,445,600 based on the fair market value of the land only, as determined by a reappraisal by the City's Real Estate Department, which reflects an increase of approximately 37 percent over the current rent.

Proposal

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

1. **Approved Use:** Operation of an International Service Center and public post office, and ancillary public and employee vehicle parking.
2. **Premises:** Comprised of approximately 8.61 acres of land.
3. **Term:** Five years.
4. **Option Terms:** Four five-year options to extend the term at the Airport Director's discretion, conditioned upon two years prior written notice, and subject to the Postal Service's approval of funding.
5. **Commencement Date:** Retroactively on September 1, 2017, upon full approval by City.
6. **Expiration Date:** August 31, 2023 for the initial term.
7. **Annual Rent:** \$1,445,600 for Year 1 of the term. Annual rent for Years 2-5 is escalated by three percent each year thereafter.
8. **Rental Rate:** Based on fair market value of land only equal to \$167,809.79 per acre per year.
9. **Rent Adjustment:** Fair market value of the land only will be reappraised to determine the rent for the first year of each Option Term. An appraisal methodology was negotiated by the parties, commencing with an appraisal by the City's Real Estate Department. In the event the parties do not agree on that market value, the Lease provides for a structured process designed to determine a mutually agreed upon market value.

For each subsequent year, a fixed increase will be applied to the rent, equal to the increase in the All Urban Consumers – All Items for the San Francisco- Oakland- San Jose Area index for the 12 month period, commencing July 1st and ending June 30th, prior to the 6th, 11th, 16th, and 21st year of the term, should the Airport extend the Lease term.

10. **Deposit:** Not applicable due to the Postal Service's federal agency status.
11. **Maintenance:** Postal Service maintains, at its sole cost and expense, all buildings, structures, and improvements constructed on the demised premises, including streets, roads, parking areas, curbs and sidewalks, in good order and repair and in compliance with applicable laws and regulations.
12. **Utilities:** At Postal Service's sole cost and expense.

Recommendation

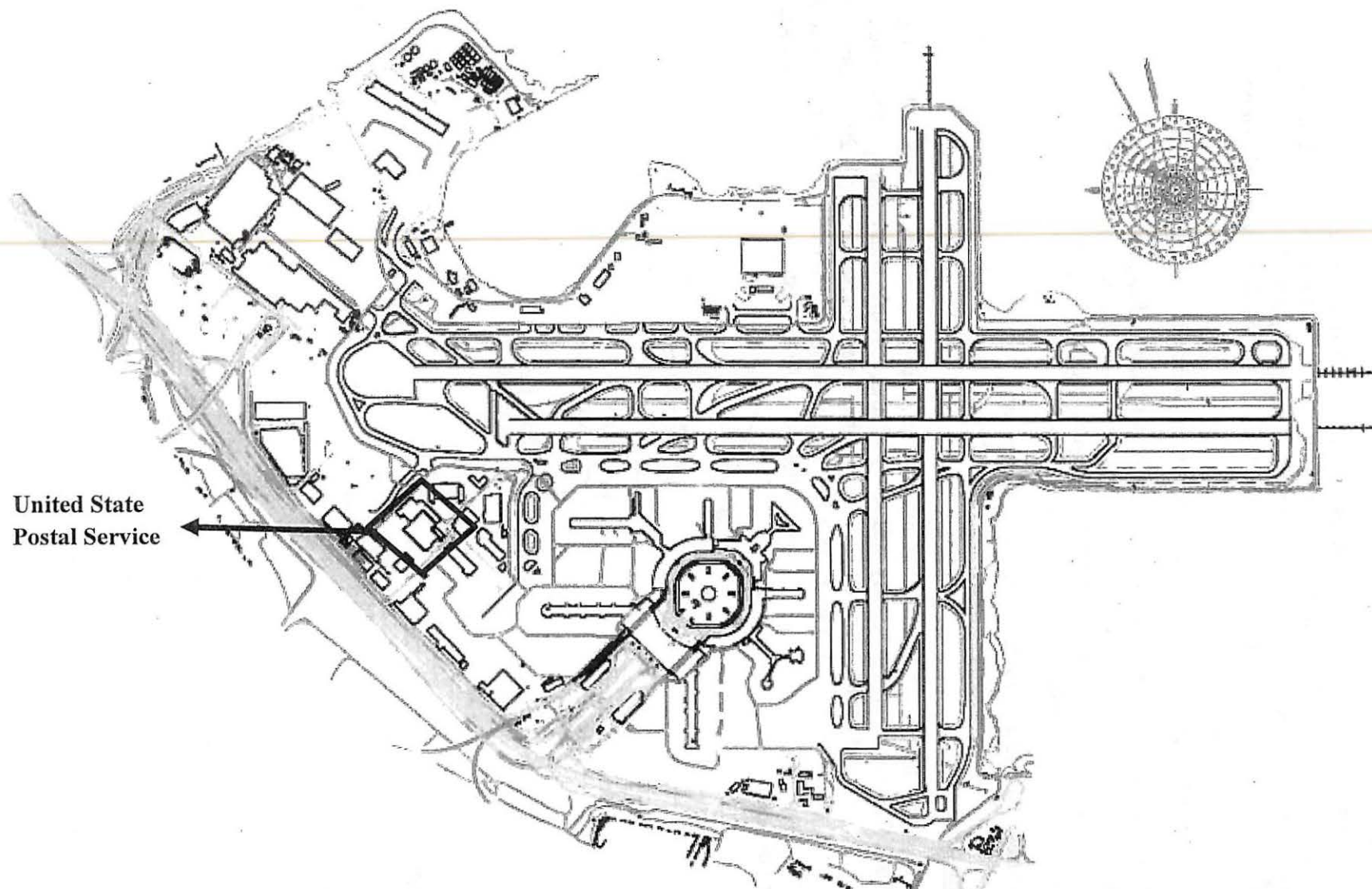
I recommend adoption of the attached resolution that: 1) approves a ground lease with the United States Postal Service for approximately 8.61 acres of land, together with existing City-owned buildings and structures at Plot 10F, commencing retroactively on September 1, 2017, upon full City approval, with a term of five years with four five-year options to extend the term, and at an initial annual rent of \$1,445,600; and 2) directs the Commission Secretary to forward the lease to the Board of Supervisors for approval.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments



United State
Postal Service

1000 0 2000 3000

--- GRAPHICAL SCALE (FEET) ---

Prepared by: Facilities
Ernie Eavis - Deputy Airport Director

SAN FRANCISCO INTERNATIONAL AIRPORT
CITY & COUNTY OF SAN FRANCISCO
AIRPORT COMMISSION
John L. Martin - Airport Director
March 2007

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 17-0232

1) APPROVAL OF A GROUND LEASE WITH THE UNITED STATES POSTAL SERVICE FOR APPROXIMATELY 8.61 ACRES OF LAND ON PLOT 10F, AND 2) DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL

WHEREAS, pursuant to Public Utilities Commission Lease No. 24392, the United States of America leases approximately 8.61 acres of land, together with existing City owned buildings and structures, at Plot 10F, for occupancy by the United States Postal Service ("Postal Service") to operate an International Service Center ("ICS") and public post office at a current rent of \$1,054,674.11 per year; and

WHEREAS, Lease No. 24392 expired on August 31, 2017 and reverted to hold over status, and the Postal Service wishes to continue occupancy of postal facilities and land at Plot 10F for a continuation of the ICS operation and post office pursuant to a new lease; and

WHEREAS, Airport staff has negotiated a lease with the Postal Service for the land, together with the existing City-owned buildings and structures at Plot 10F (the "Lease"), to be effective retroactively on September 1, 2017, upon full City approval, which provides for: 1) use and occupancy for operation of the ISC and post office, and ancillary purposes, 2) a demised premises comprised of approximately 8.61 acres of land, 3) a term of five years with four five-year options to extend at the Airport Director's discretion but subject to the Postal Services' approval of funding, and 4) an initial annual rent of \$1,445,600; now, therefore be it

RESOLVED, that the Airport Commission hereby approves and authorizes the Airport Director to execute the Lease with the Postal Service commencing retroactively on September 1, 2017, upon full City approval, which provides for: 1) use and occupancy for operation of the ISC and post office, and ancillary purposes, 2) a demised premises comprised of approximately 8.61 acres of land, 3) a term of five years with four five-year options to extend at the Airport Director's discretion but subject to the Postal Service's approval of funding, and 4) an initial annual rent of \$1,445,600, and on the other terms and conditions set forth in the Director's Memorandum; and, be it further

RESOLVED, that the Airport Commission hereby directs the Commission Secretary to forward the Lease to the Board of Supervisors for approval pursuant to Section 9.118 of the City Charter.

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

SEP 19 2017


Secretary