

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 19-0021

APPROVAL OF A LEASE AGREEMENT WITH CHINA AIRLINES LIMITED FOR A PORTION OF AIRPORT BUILDING 648 AND RAMP SPACE ON PLOT 10, AND DIRECTING THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

- WHEREAS, China Airlines Limited ("Tenant") is a Signatory Airline pursuant to the 2011 Lease and Use Agreement No. L10-0082; and
- WHEREAS, on March 1, 2016, by Resolution No. 16-0072, the Commission awarded Lease No. 16-0072 to Tenant for the operation of its cargo handling operations at Airport Building 648 on Plot 10 (the "Lease"); and
- WHEREAS, the Lease has an initial three-year term that expires on April 8, 2019, and Tenant wishes to exercise the one three-year option under the Lease (the "Option Term") to continue its cargo operations at the Airport; and
- WHEREAS, due to increases in flight activity, higher cargo volumes, and a reduction in cargo facilities during the last five years necessitating increasingly efficient use of Airport cargo facilities, the Commission declines to exercise the Option Term; and
- WHEREAS, the Commission and Tenant now desire to enter into a new lease agreement which includes, among other things, a one-year term with two one-year options; now, therefore, be it
- RESOLVED, that the Commission approves and authorizes the Airport Director to execute a lease agreement with China Airlines Limited for a one-year term, with two (2) one-year options exercisable by the Commission, and other terms and conditions set forth in the Director's Memorandum; and, be it further
- RESOLVED, that the Commission Secretary is hereby directed to request Board of Supervisors' approval of the lease agreement pursuant to City Charter Section 9.118.

*I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of* FEB - 5 2019


Secretary



San Francisco International Airport

MEMORANDUM

February 5, 2019

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

FROM: Airport Director

SUBJECT: Approval of a Lease Agreement with China Airlines Limited for a Portion of Airport Building 648 on Plot 10

DIRECTOR'S RECOMMENDATION: APPROVE A LEASE AGREEMENT WITH CHINA AIRLINES LIMITED FOR A PORTION OF AIRPORT BUILDING 648 AND RAMP SPACE ON PLOT 10, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE TO THE BOARD OF SUPERVISORS FOR APPROVAL.

Executive Summary

Staff seeks Commission approval of a lease agreement with China Airlines Limited ("Tenant") for approximately 38,082 square feet of warehouse and office space at Airport Building 648 ("Parcel A") and 0.16 acres of exclusive-use ramp space adjacent Parcel A on Plot 10 ("Parcel B"), collectively the "Premises," for a term of one year with two (2) one-year options and an initial combined annual rent for Parcels A and B of \$1,004,467.02.

Background

On March 1, 2016, by Resolution No. 16-0072, the Commission awarded a lease to Tenant for approximately 38,082 square feet of warehouse and office space at Airport Building 648 where it currently conducts its integrated air cargo business, including receiving, delivery, dispatching, processing, handling, and storage of air cargo and mail, and other lawful uses directly related to the foregoing activities ("Lease No. 16-0072"). Lease No. 16-0072 has a three-year term, which expires on April 8, 2019, and one (1) three-year option (the "Option Term") exercisable at the discretion of the Commission.

The Airport experienced a net increase of 15 airlines over the last five years, as well as traffic increases from existing airlines, driving cargo volumes up 51.4% during this period. During the same approximate time period, the number of available cargo facilities at the Airport has gone

THIS PRINT COVERS CALENDAR ITEM NO. 8

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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AIRPORT DIRECTOR

from 11 to seven, representing a reduction of approximately 181,308 square feet of space, primarily due to impacts related to the Airport's Capital Improvement Plan. Third-party cargo handling companies have been able to accommodate this growth by increasing the number of airline customers and cargo volume handled within the available facilities. There are currently two airlines, including Tenant, whose cargo is handled in Tenant's space at Parcels A and B.

Proposal

Staff reviewed cargo space utilization and determined Tenant is using its space satisfactorily; however, pressure remains to accommodate continued growth. Increasingly efficient use of Airport cargo facilities is a necessity to accommodate future demand. As a result, the Airport has elected not to exercise the three-year Option Term in the expiring Lease in order to preserve maximum flexibility for space planning purposes. Given there is no difference between the Option Term in the existing Lease expiring April 8, 2019 and the new proposed term, and the long history between Airport and Tenant, Staff elected to negotiate a new lease agreement, as summarized below:

- 1) Term: One year.
- 2) Option Term: Two (2) one-year options to extend the Term at the Commission's discretion.
- 3) Commencement Date: The later of April 9, 2019 and full City approval.
- 4) Holdover. If full City approval is not obtained by April 9, 2019, Lease No. 16-0072 shall go into a month-to-month holdover upon the same terms and conditions until such approval is received.
- 5) Premises:

Parcel A – Exclusive space comprises approximately 33,246 square feet of warehouse space and approximately 4,836 square feet of first floor office space, for a total of approximately 38,082 square feet; and

Parcel B – Exclusive-use ramp space of approximately 0.16 acres adjacent to Airport Building 648, as depicted on Exhibit A.
- 6) Annual Rent: Total annual rent for Parcels A and B is \$1,004,467.02 based on the Summary of Airport Charges rate of \$25.67 per square foot per year multiplied by 38,082 square feet (\$977,564.94) for Parcel A, and the rate of \$168,138.00 per acre per year multiplied by 0.1 acres (\$26,902.08) for Parcel B. Should the Option Term be exercised, Parcel A rent shall adjust annually to reflect the rates set forth in the current Summary of Airport Charges and Parcel B rent shall adjust annually by the Consumer Price Index adjustment.

- 7) Permitted Use: Integrated air cargo related business including receiving, delivery, dispatching, processing, handling, and storage of air cargo and mail, and any other lawful purposes directly related to the foregoing activities.
- 8) Utilities: At Tenant's sole expense.

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

Recommendation

I recommend the Commission adopt the attached resolution approving a lease agreement with China Airlines Limited for a term of one year, with two (2) one-year options exercisable at the Commission's discretion, at a combined initial annual rent of \$1,004,467.02 for Parcels A and B. I further recommend the Commission direct the Commission Secretary to forward the lease agreement to the Board of Supervisors for approval.



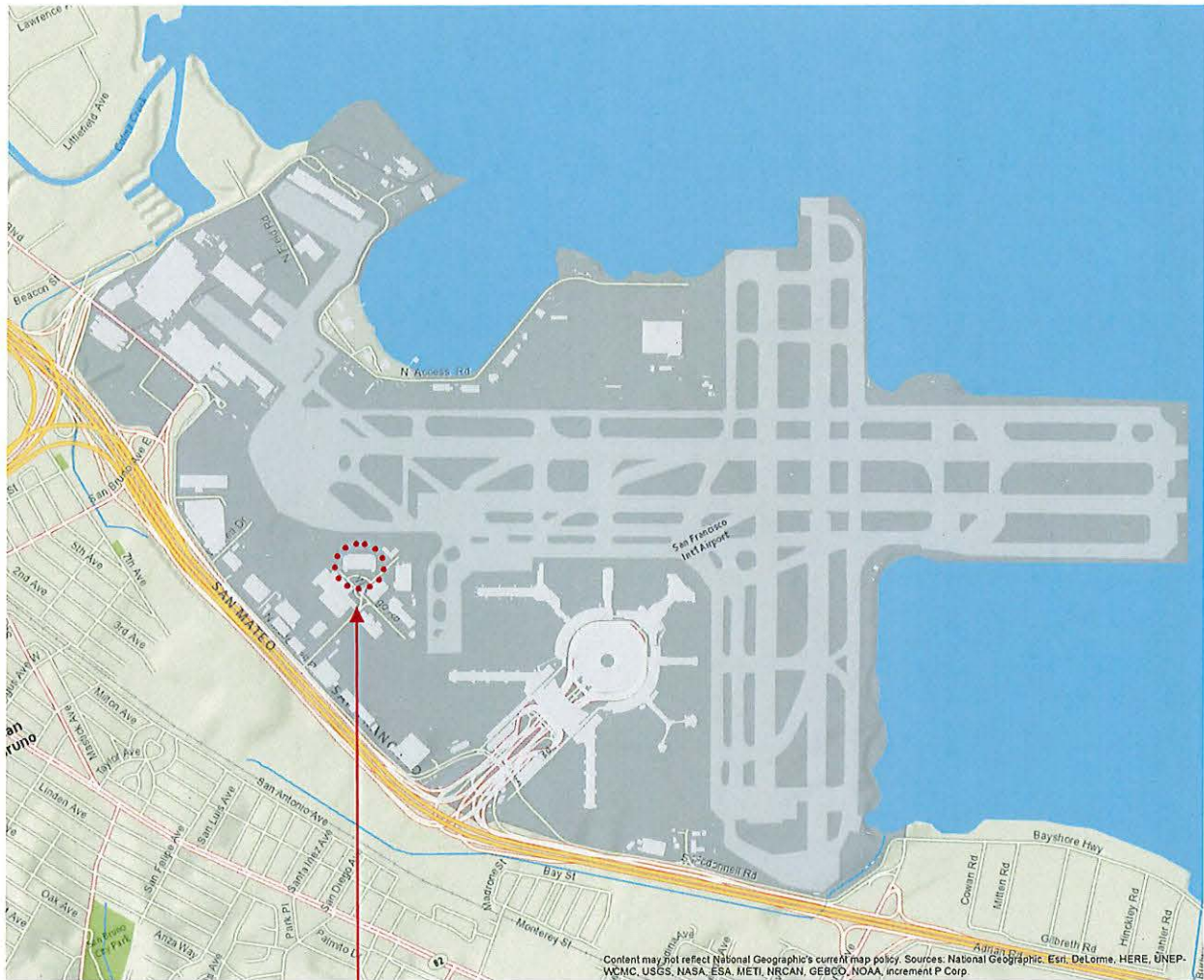
Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachments

Exhibit A

PREMISES



Airport Building 648 and Plot 10