

Mayor and Council Communication

DATE: 04/11/23

M&C FILE NUMBER: M&C 23-0260

LOG NAME: 55FTW RENEWAL AND ASSIGNMENT LEASE 40S, FTW 3524 LLC

SUBJECT

(CD 2 / Future CD 2) Authorize Execution of an Amendment to City Secretary Contract 43601, a Hangar and Ground Lease Agreement for Lease Site 40S at Fort Worth Meacham International Airport with the Current Tenant, Forty South, LLC, to Include the Correct Square Footage of the Existing Hangar and Update the Fair Market Per Square Foot Rental Amount Based on an Amended Third Party Appraisal and Authorize the Execution of a Consent to Assignment of the Same Lease from Forty South, LLC to FTW 3524 LLC

RECOMMENDATION:

It is recommended that the City Council:

1. Authorize execution of an amendment to City Secretary Contract 43601, a hangar and ground lease agreement for Lease Site 40S at Fort Worth Meacham International Airport with the current tenant, Forty South, LLC, to include the correct square footage of the existing hangar and update the fair market per square foot rental amount based on an amended third-party appraisal; and
 2. Authorize execution of a consent to assignment of City Secretary Contract 43601, a hangar and ground lease agreement for Lease Site 40S, by the current tenant, Forty South, LLC to FTW 3524 LLC, at Fort Worth Meacham International Airport.
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DISCUSSION:

On January 4, 1983, Burnett Aviation Co., Inc. (Former Lessee) entered into City Secretary (CSC) 12887, a Fixed Based Operator Lease for ground space known as Lease Sites 40S and 43S, consisting of a total of 236,778 square feet of ground space. The Lease contained a thirty (30) year lease term ending on January 3, 2013. On or about September, 2012, Lessor and Burnett Aviation agreed to divide Lease Sites 40S and 43S into three individual tracts to be known as Lease Sites 39S, 40S and 41S (formerly 43S) and enter into three different agreements for each lease site.

On September 11, 2012 through Mayor and Council Communication (M&C) C-25812, City Council authorized the City of Fort Worth (City) to execute a ground lease agreement under CSC 43601 (Lease) with Former Lessee, with an effective date of January 4, 2013 for lease and use of real property known as Lease Site 40S and any improvements and facilities thereon. Lease Site 40S had improvements including a 14,400 square foot hangar at the time Lease Site 40S was created. Former Lessee subsequently expanded the footprint of the hangar to 25,250 square feet.

On August 25, 2022, through M&C 22-0645, City Council authorized CSC 43601-CA1, a consent to assignment of the Lease from Former Lessee to Forty South, LLC (Current Lessee). The Lease consists of 111,194 square feet of ground space. Existing improvements include a 25,250 square foot hangar. The lease term had a termination date of January 3, 2023 with three (3) options to renew for an additional ten (10) year term each. In preparation for the upcoming lease renewal, staff contracted a third-party appraiser (JLL) to perform an appraisal of the hangar (Initial Appraisal), which came back with a rate of \$7.50 per square foot per year based on a hangar square footage of 25,250. Current Lessee was provided a copy of the Initial Appraisal.

On November 15, 2022, Current Lessee and Lessor entered into CSC 43601-R1, exercising the first renewal option as provided for in CSC 43601. In accordance with Section 3.2.3 Ten-Year Adjustments, Hangar Rate in the Lease, a hangar rate based on the Initial Appraisal was applied at a rate of \$7.50 per square foot per year. Through a routine audit of the account in January, 2023, staff discovered that the price per square foot was inadvertently calculated on the renewal using the hangar footprint prior to expansion of the hangar which was 14,400 square feet; however, the intent was to incorporate all 25,250 square feet of hangar space which reflects the added space to the hangar that was conducted by Former Lessee. Upon notification of the discrepancy, the Current Lessee requested and the City agreed to contact JLL and address an inconsistency in the Initial Appraisal and an appraisal performed on a hangar known as 41S which was built and finished out by the same developer in the same time period. After review of the Initial Appraisal, JLL subsequently revised the market rate assumption in the Initial Appraisal to \$6.25 per square foot per year, more accurately reflecting fair market value for similar City-managed hangars on the Airport.

Upon City Council approval, an amendment for CSC 43601 will accurately define the leased premises as 111,194 square feet of ground space (Ground), to include a 25,250 square foot hangar (Hangar) and incorporate the re-evaluated fair market value by JLL. Additionally, through the proposed amendment, the Current Lessee will be responsible for paying the City any amounts owed, per the new fair market value rental rate and square footage, that had not been paid since the renewal of the Lease went into effect in January of this year. Annual revenue from the ground rate will be fifty-two thousand two hundred sixty-one dollars and 18/100 (\$52,261.18), paid in monthly installments of four thousand three hundred fifty-five dollars and 10/100 (\$4,355.10). Annual revenue from the hangar rate will be one hundred fifty-seven thousand eight hundred twelve dollars and 50/100 (\$157,812.50). Rental rates shall be subject to an increase on October 1st of any given year, based on the upward percentage change in the Consumer Price Index for the Dallas-Fort Worth Metropolitan area. At no time will the adjusted rate exceed the then current rate published in the Aviation Department's Schedule of Rates and Charges. Five-year rate adjustments are applied to the ground rate with the next scheduled adjustment on January 4, 2028 and every fifth year thereafter.

On January 17, 2023, staff received a request from the Current Lessee to consent to an assignment of the Lease to FTW 3524 LLC (FTW 3524).

Upon City Council approval, FTW 3524 will assume the leasehold interest and obligations associated with the Lease.

The Lease prohibits any assignment of the Lease or causing any lien to be made on improvements constructed on the leased premises without City Council approval. These types of transactions are routine for airport tenants and staff has no objection to this request.

Fort Worth Meacham International Airport is located in COUNCIL DISTRICT 2/FUTURE COUNCIL DISTRICT 2.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that upon approval of the above recommendations and execution of the lease, funds will be deposited into the Municipal Airport Fund. The Aviation Department (and Financial Management Services) is responsible for the collection and deposit of funds due to the City.

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