

March 16, 2021

**C-7**

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager, or designee, to execute any and all documents necessary for the Third Amendment to Lease No. 9351 with Million Air North, Inc., a California corporation, for City-owned property at 4401 Donald Douglas Drive at the Long Beach Airport. (District 5)

**DISCUSSION**

In January 1968, the City of Long Beach (City) executed Lease No. 9351 (Lease) with Millie and Severson, Inc., for approximately 5.7 acres of land at 4401 Donald Douglas Drive (Leased Premises), for the development of an office building, under a 55-year total term. Since that time, the Leased Premises have been reduced to approximately 3.58 acres and the Ground Lease has been assigned three times, most recently to Million Air North, Inc. (Tenant), in 2009. Tenant currently subleases portions of the Leased Premises to several entities including NuSpace, an aerospace manufacturing firm, the Transportation Security Administration, and the Airport Department to house its Engineering, Accounting and Security Divisions.

The current term of the Lease will expire on January 2, 2023. Tenant has identified a series of capital improvements needed for the Leased Premises and has requested an extension of the Ground Lease to amortize its investment in the capital improvements over a ten-year additional term. Negotiations between staff and Tenant have resulted in a proposed Third Amendment to Lease No. 9351 containing the following major terms and provisions:

- **Landlord:** City of Long Beach, a municipal corporation.
- **Tenant:** Million Air North, Inc., a California corporation.
- **Leased Premises:** Approximately 3.58 acres of land at 4401 Donald Douglas Drive at the Long Beach Airport.
- **Term:** The Lease will be extended for a period of approximately ten years and will terminate on January 31, 2033.
- **Rent:** The current ground rent for the Leased Premises is \$18,346 per month (\$0.118 per square-foot). Effective January 1, 2023, the ground rent will increase to \$25,918 per month (\$0.166 per square-foot).
- **Annual Rental Adjustment:** Effective January 1, 2024, the ground rent for the Leased Premises will be subject to annual increases based on the Consumer Price Index (CPI). In no event will the increase be less than 3 percent per year nor more than 3 percent per year.

- Fair Market Rental Adjustment: On January 1, 2028, the ground rent will be adjusted to fair market value in lieu of a CPI adjustment based upon a 7 percent rate of return on land value. In no event will the ground rent decrease due to the fair market valuation.
- Capital Investment and Improvements: Tenant will complete a series of capital improvements to the Leased Premises, with a minimum capital investment of \$750,000. Planned improvements will include the installation of an elevator, seismic retrofitting, and construction of a freestanding building in the southeast corner of the property for future use in support of Tenant/Subtenant needs.

This matter was reviewed by Deputy City Attorney Richard F. Anthony on February 25, 2021 and by Revenue Management Officer Geraldine Alejo on February 26, 2021.

#### TIMING CONSIDERATIONS

City Council action is requested on March 16, 2021, to execute the Third Amendment in a timely manner.

#### FISCAL IMPACT

The City receives \$220,150 in annual lease revenues under the current Ground Lease. Beginning January 1, 2023, annual lease revenues will increase to \$311,016 and will continue to accrue to the Airport Fund Group in the Airport Department. On January 1, 2028, the rent will be subject to a fair market adjustment and will increase annually thereafter based on the CPI. No increase will be less than 3 percent per year, nor more than 5 percent per year. Lease revenue increases will be incorporated into the Airport Department budget each year during the annual budget process. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities. There is a positive impact on local jobs associated with this recommendation.

#### SUGGESTED ACTION

Approve recommendation.

Respectfully submitted,



CYNTHIA GUIDRY  
DIRECTOR, LONG BEACH AIRPORT

APPROVED:



THOMAS B. MODICA  
CITY MANAGER