



City of Santa Barbara
Airport Department

DATE: June 17, 2015
TO: Airport Commission
FROM: Hazel Johns, Airport Director
SUBJECT: FY2016 Airport Commercial/Industrial Lease Rates

RECOMMENDATION: That Airport Commission approve the proposed Fiscal Year 2016 Commercial/Industrial Rental Rates, for land and buildings at the Santa Barbara Airport.

DISCUSSION:

Background

The Business & Property Management Program is charged with maintaining the Airport's self-sufficiency and strong financial position by prudent fiscal management of its fixed assets.

The Division currently manages 326,963 leasable square feet of building space and 4,837,298 square feet of land including 158 tenants and subtenants and 180 agreements, not including taxicabs. These tenants include:

- Leases, licenses, and concession agreements associated with the operation of commercial air service (airlines, rental cars, restaurant, gift shop, TSA, shuttle services, parking, ATM machine etc.)
- General aviation agreements (FBOs, T-hangars, tie-downs, flight schools, maintenance & avionics shops, freight carriers, charter air services, and aircraft washing services.)
- Commercial/Industrial leases (offices, research & development, light industrial and storage spaces).

Forty-seven agreements with new and existing tenants were negotiated in CY 2014.

The occupancy rate for land in FY 2015 increased from 98.5% in July 2014 to 99.3% in June 2015. The occupancy rate for buildings increased from 94.6% to 98.3% over the same period. The lease to Big Brand Tire, of the tire shop at 6010 Hollister Avenue, in July of 2014, resulted in an additional \$7,533 per month in rent to the Airport. The restaurant facility at 521 Norman Firestone Road has also been leased. Monthly rental is scheduled to commence six months after completion of improvements by the Airport. The first year's rent of \$12,694 per month is expected to commence in the spring of 2016.

Most potential tenants continue to learn of Airport vacancies by word of mouth, however the Airport has experienced good results by placing advertisements on Craig's List this year. Two 800 square foot offices and a 3,995 office/industrial space were leased, following a posting on Craig's List.

At this time, the existing building vacancies consist of two small offices on Firestone Road at 256 and 144 square feet respectively, one half of one of the bungalows at 412 square feet on Firestone, one airside access only office of 380 square feet, and an airside storage space at the end of T-Hangar 7. There are also two temporary industrial spaces of 1,600 and 1,440 square feet available in Building 115, which is scheduled for demolition as part of the Direct Relief project.

The existing land vacancies consist of three yards ranging from 27,456 square feet to 2,279 square feet. In addition, one yard of 3,540 square feet is currently under negotiations.

All the City tie-downs are currently leased. One T-hangar is under negotiations and will be leased beginning July 1, 2015.

Effects of the Current State of the Economy

The UCSB Economic Forecast and other reputable sources have predicted that the economy will continue to improve, but do not expect to match the gains in 2015 that were experienced in 2014. Goleta and Airport tenants showed signs of recovery in 2014. The Airport has two delinquent tenants at this time. One tenant is a long-haul trucker who is frequently on the road and the other is one of the flight schools.

Market Analysis

A market analysis was conducted by examining newspaper advertisements for Goleta Commercial/Industrial properties, the Radius Group bulletins, monthly and quarterly reports, and the UCSB Economic Forecast.

The current rental market in Goleta was evaluated over a nine week period from March 22 to June 7, 2015. During this period, three office vacancies that did not exceed the maximum square footage for an Airport building came on the market. The industrial/R&D sector had no comparable vacancies. Industrial vacancies in the Goleta area are at 3.5% according the Radius Group 2015 First Quarter Report, however 75% of that is associated with one 105,000 square foot building on Los Carneros. Goleta office vacancies are at 8.9%. The highest proposed rental rate for office space advertised in the Santa Barbara News Press was \$1.45. A comparison of average Airport rates to Goleta rates is shown below.

	Goleta			Airport
	<u>2014</u>	<u>2015</u>	<u>2015</u>	<u>2015</u>
	<i>UCSB</i>	<i>News Press</i>	<i>Radius Q1</i>	
Office:	\$1.68*	\$1.42	1.75*	\$1.65
Industrial/R&D	\$1.29*	no comps	1.37*	\$1.21
Warehouse	no comps	no comps	no comps	\$.79
Land	no comps	no comps	no comps	\$.16 (<i>unpaved</i>)
	<i>*actual</i>		<i>*asking</i>	\$.21 (<i>paved</i>)

No comps were found for warehouse or yard space during the survey period. The demand for storage lots has picked up, since 2014. Out of 2,422,570 square feet of available Commercial/Industrial land, only 1.4% (four yards totaling 34,675 square feet) is currently vacant. One of the yards is currently in negotiations.

Rental Rate Analysis

Based upon Staff’s analysis of all the information provided, and considering the relative condition and age of Airport buildings, Staff recommends the following adjustments for Fiscal Year 2016. The last adjustment to the rental rates was July 1, 2013.

Proposed Rates for FY 2015

Buildings:

Office	\$1.35 \$1.40 to \$1.70 \$1.85 / square foot/ mo.
Industrial / R & D/ Shop / Assembly	\$.95 \$1.00 to \$1.50 /square foot / mo.
Storage / Warehouse	\$.65 \$.70 to \$.85 \$1.00 / square foot / mo.

Land:

Parking Spaces: **\$14.00/space/mo.**

FY2016 Budget

The Airport’s budget is established by first projecting revenue from the tenant leases, and user fees. Budget projections are also included in the Airport’s cash flow forecast. The projections do take into account possible vacant properties and potential development, so there is some flexibility in the estimates. Commercial/Industrial revenues for the FY2016 budget, including utilities and permits, were estimated at \$4,488,390 based on projected FY2015 Commercial/Industrial revenue of \$4,196,928, a 6.9% increase.