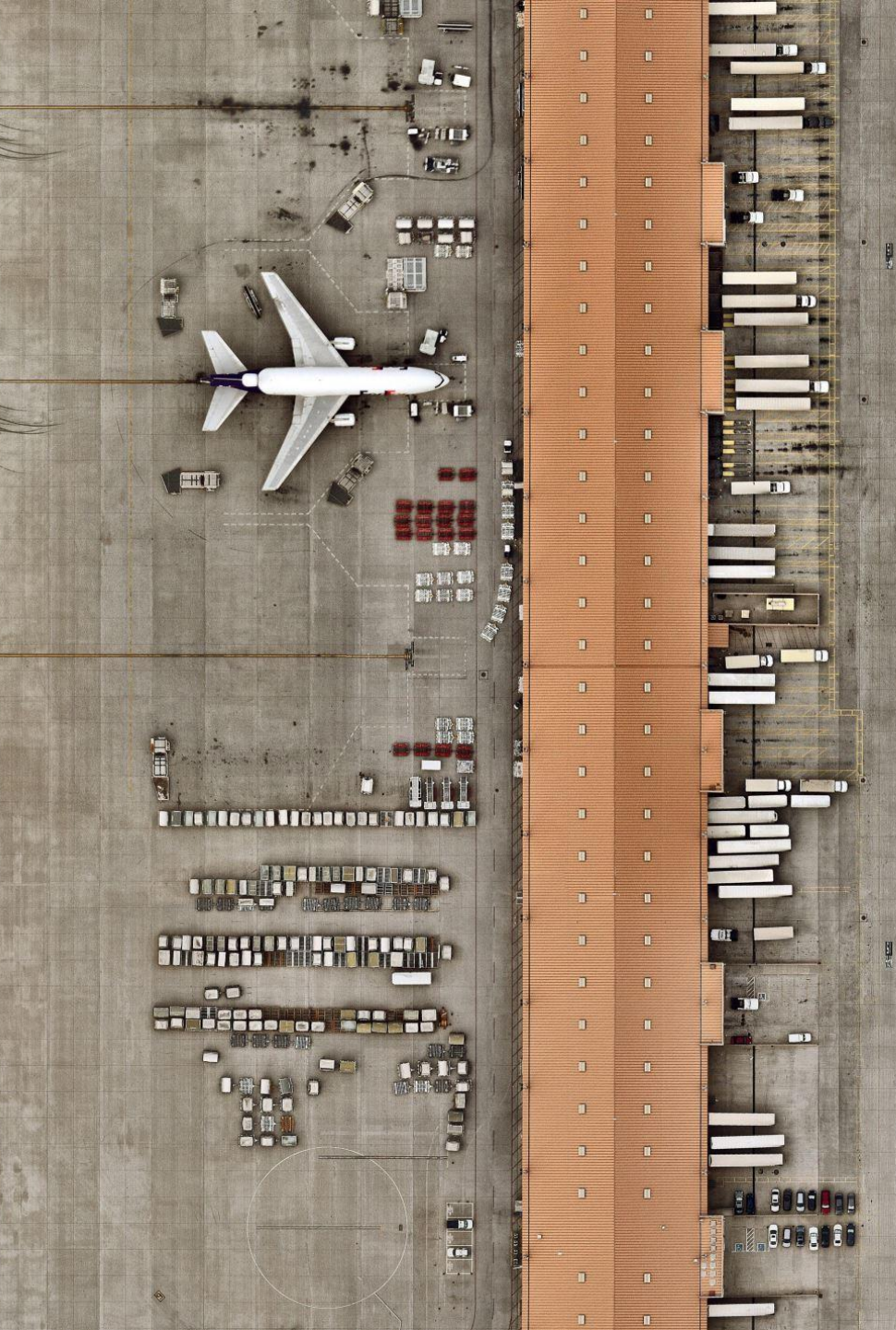




Airport Ground Leases

HISTORY AND EXPIRATION





Outline

- ▶ Origins of American Airports
- ▶ Funding for Airport Development
- ▶ Federal Funding vs Private Funding
- ▶ Federal Grant Assurances
- ▶ Standard Ground Lease
- ▶ Ground Lease Expiration and Options

Origins of American Airports

World War II

- The Development of Landing Areas for National Defense (DLAND) contributed to creating 986 airports for the war.

End of World War II

- In the 1940s and 1950s most of these airports became property of the local municipality or county.

CHEVRON
AVIATION
GASOLINE

**CARSON
FLYING SERVICE**

RPM

**INSTRUCTION · CHARTER
SALES · SERVICE**

NO SMOKING



Origins of American Airports

- ▶ Modern FAA Airport Compliance Manual (FAA Order 5190.6B)
 - ▶ “tenant ground leases of 30-35 years are sufficient to retire a tenant’s initial financing and provide a reasonable return for the tenant’s development of major facilities.”
 - ▶ This concept stems from the original idea that private investors should be given adequate time in their ground lease to make a profit from their investment, but the improvements should be replaced if they are past the useable life or become property of the airport.

Funding for Airport Development

- ▶ Private investment was required to develop the airports.
 - ▶ The local governments did not have the capital to develop the airports.
 - ▶ Private investment, through ground leases, was used to develop the airports.
- ▶ Modern FAA Airport Compliance Manual (FAA Order 5190.6B)
 - ▶ “tenant ground leases of 30-35 years are sufficient to retire a tenant’s initial financing and provide a reasonable return for the tenant’s development of major facilities.”
 - ▶ This concept stems from the original idea that private investors should be given adequate time in their ground lease to make a profit from their investment, but the improvements should be replaced, if past the useable life, or become property of the airport.
- ▶ Most hangar tenants will not be evicted and will be able to continue to utilize or profit from the improvements

Federal Funding vs Private Funding

- ▶ This standard is common at federally funded airports
- ▶ Privately owned airparks that do not receive federal funding and typically sell lots and do not lease land.
- ▶ Federally funded airports provide a resource to all Americans and for national defense
 - ▶ They may not be used as a residence.

Federal Grant Assurances

- ▶ Grant Assurance 2
 - ▶ “It has sufficient funds available for that portion of the project costs which are not to be paid by the United States.”
 - ▶ Airports must be able to afford the cost to operate and pay for their portion of capital improvements.
- ▶ Grant Assurance 24
 - ▶ “It will maintain a fee and rental structure for the facilities and services at the airport which will make the airport as self-sustaining as possible”
 - ▶ The airport must choose the most profitable option at a lease expiration.

Standard Ground Lease

- ▶ Makeup of a standard ground lease
 - ▶ “15. REMOVAL OF BUILDINGS AND IMPROVEMENTS. Tenant shall remove at his cost all buildings and improvements upon termination of this lease and restore the premises to its original condition. Title in building and improvements shall at all times during the lease term remain in the Tenant. The Landlord shall have the option on expiration of lease period, or upon termination of this lease, to take title of the buildings and improvements, at no cost or obligation to Landlord, in lieu of Tenant’s obligation to restore the premises to its original condition.”
- ▶ The lease is very clear.
 - ▶ There should be no confusion as to what will take place at the end of the lease

Ground Lease Expiration and Options

- ▶ Remove Improvements
 - ▶ May happen if the improvements are a hindrance for the airport instead of an asset
- ▶ Reversion
 - ▶ Most ground leases will end in a reversion to airport ownership

Standard Ground Lease

- ▶ The language is not unique to airports
- ▶ It is common for commercial developments on leased land with other Government agencies and private development

State Requirements

- ▶ Each State is Different
- ▶ NRS 496.090
 - ▶ Maximum lease of 50 years

Discussions and Examples

