



REPORT TO CITY COUNCIL

Approved by:

Daniel Foss, Department Director

Arnaldo Rodriguez, City Manager

Council Meeting of: July 1, 2020

Agenda Number: D-1

SUBJECT:

Annual Lease Rates for Non-Commercial Aeronautical Land Areas at the Madera Municipal Airport

RECOMMENDATION:

Adopt a Resolution approving an increase in rent for Non-Commercial Aeronautical Land Lease Base Rates at the Madera Municipal Airport from \$0.26 per square foot per year to \$0.32

SUMMARY:

The Madera Municipal Airport (MMA) has been the subject of renewed interest recently. More specifically, numerous individuals have approached the City indicating a desire to enter into long-term land leases where they intend to construct hanger spaces for personal aircraft.

Prior to entertaining a lease, staff felt it appropriate to conduct a rent analysis to determine market rates for airport land leases. The analysis reviewed existing airport lease rates and compared MMA to nearby airports. Today, the base lease rate is set at \$.20 per square foot (sf) on an annual basis which was established in 2008, while the study recommends a price range of \$.30 to \$.35 per sf per year. Staff is recommending a base lease rate of \$0.32 sf per year on an annual basis.

It is noted that although the base lease rate is \$.20 per sf per year, the consumer price index (CPI) places current lease rate at \$.26 per sf per year which is applied to the rental rates every 5 years of the term of the agreement.

The CPI is an index generated by the Bureau of Labor Statistics that measures the prices paid by urban consumers for a representative basket of goods and services. The index is used in leases as an attempt to fairly increase or decrease the rent required to be paid by a tenant to correspond

with changes in national or regional inflation. Therefore, when the price goes up there's inflation. When the price goes down, the economy is experiencing deflation. The government uses CPI to fairly increase the amounts of benefits it pays to certain people. In the real estate sector, landlords use CPI to increase rent in line with inflation.

DISCUSSION:

In June 2020, the City retained Aviation Consulting Management Group (AMCG) to prepare a lease rate study. In order to derive market lease rates, AMCG analyzed information from similar national, regional, comparable, and nearby airports. In addition to the comparable and competitive airport data, lease rates from more than 500 airports located throughout the U.S. as well as rents obtained from more than 90 airports in the Federal Aviation Administration (FAA) Western-Pacific Region were analyzed. Table 1 provides an average lease rate from national, regional, comparable and local competitive airports.

Table 1: Airport Rent Comparisons	
<i>Component</i>	<i>Average Rent Price per square foot per year</i>
National Airports	\$0.26
Regional Airports	\$0.32
Comparable Airports	\$0.37
Local Competitive Airports	\$0.47

In addition, AMCG assessed comparable airports. Comparable airports included those without an air traffic control tower and without a procession approach, similar to Madera’s. Nearby airports were also assessed. Nearby airports are airports within 55 nautical miles and were included based on relative proximity to Madera’s. However, some airports such as Hanford, Chowchilla, and Fresno Yosemite International Airports were not included in the analysis but are presented in this report solely for informational purposes. This is due to the above-mentioned airports not being comparable for reasons such as runway size or other amenities which may or may not be offered at these airports. Table 2 identifies comparable airports, whereas Table 3 provides local competitive airports.

Table 2: Comparable Airports	
<i>Airport</i>	<i>Location</i>
Cleburne Regional Airport	Cleburne, Texas
Hazleton Regional Airport	Hazleton, Pennsylvania
Mandan Municipal Airport	Mandan, North Dakota
North Little Rock Municipal Airport	North Little Rock, Arkansas
Spanish Fork Airport Springville-Woodhouse Field	Spanish Fork, Utah
West Bend Municipal Airport	West Bend, Wisconsin
West Georgia Regional Airport – O.V. Gray Field	Carrollton, Georgia

Table 3: Local Competitive Airports		
<i>Airport</i>	<i>Location</i>	<i>Average Rent Price per square foot per year</i>
Fresno Chandler Executive Airport	Fresno, California	\$.50 to \$.60
Modesto City – County Airport – Harry Sham Field	Modesto, California	\$.50 to \$.95
Pine Mountain Lake Airport	Groveland, California	\$.05
Visalia Municipal Airport	Visalia, California	\$.26 to \$.38
Fresno Yosemite International Airport	Fresno, California	\$.55
Hanford Municipal Airport	Hanford, California	\$.34
Chowchilla Airport	Chowchilla, CA	\$.14 ^a
<i>Madera Municipal Airport</i>	<i>Madera, CA</i>	<i>\$.32^b</i>

^a Only has T-Hangars

^b Proposed as part of this report

Based on national, competitive, and comparable airports, AMCG is recommending that the land lease base rate be set at a price range of \$0.30 to \$0.35 per sf per year, plus CPI language which allows rates to be adjusted. The recommended rate of \$0.32 represents an increase from the existing \$0.26 sf per year; however, less than the average of \$0.37 for comparable airports as highlighted in Table 1.

It is expected that the staff recommended lease rate of \$0.32 per sf per year would be applied to new and renewed leases. For reference, Figure 1 provides an overview of potential lease areas.



Figure 1: Potential Land Lease Areas

FINANCIAL IMPACT:

The proposed rates will increase revenue to the City, allowing the City's Airport rates to remain up to date in today's market. It is noted that the airport is an enterprise fund and as such, revenue generated from land leases is re-invested into the airport and may not be allocated for non-airport related activities.

CONSISTENCY WITH THE VISION MADERA 2025 PLAN:

The proposed action is not specifically addressed as part of the Vision Plan, nor is it in conflict with the Plan.

ALTERNATIVES:

Leave the airport rates as they currently exist.

ATTACHMENTS:

1. Resolution
2. Rate Study prepared by Aviation Management Consulting Group dated June 17, 2020

RESOLUTION NO. _____

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF MADERA,
CALIFORNIA APPROVING AN INCREASE OF RENT COST FOR NON-
COMMERCIAL AERONAUTICAL LAND AREAS AT THE MADERA
MUNICIPAL AIRPORT TO \$0.32 PER SQUARE FOOT.**

WHEREAS, the City has a need to update market rent for land area at the Madera Municipal Airport; and

WHEREAS, a rent study was completed by Aviation Management Consulting Group; and

WHEREAS, Aviation Management Consulting Group has been identified as a firm having the necessary experience and qualifications to provide market rent opinion; and

WHEREAS, a rent opinion of \$0.32 for Non-Commercial Aeronautical Land Areas at the Madera Municipal Airport is being implemented; and

WHEREAS, the annual rent will include CPI language.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MADERA HEREBY finds, orders, and resolves as follows:

1. The above recitals are true and correct.
2. The City Council approves the airport lease rental rate implementation.
3. This resolution is effective immediately upon adoption.

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Rent Study Summary

City of Madera

Madera Municipal Airport

June 17, 2020



I. RENT STUDY SUMMARY	2
A. Scope of Work.....	2
B. Market Rent Defined	2
C. Project Approach.....	2
D. Key Underlying Assumptions	3
E. Subject Property Overview	4
F. Study Findings	5
G. Rental Rate Summary.....	7
II. APPENDIX.....	8
A. Definitions	8
B. Limiting Conditions.....	8

I. RENT STUDY SUMMARY**A. Scope of Work**

This Rent Study Summary conveys Aviation Management Consulting Group's (AMCG's) opinion of market rent for certain land areas used for Non-Commercial purposes (Subject Property) located at the Madera Municipal Airport (Airport) which are available for lease from the City of Madera (City). AMCG understands the City is currently discussing a potential agreement with a lessee for the Subject Property.

B. Market Rent Defined

Market rent is defined as the rent a property (land or improvement) will most likely command in the open market.

C. Project Approach

To achieve the scope of work, AMCG completed the following work plan:

1. developed a profile of the Airport;
2. identified comparable and competitive airports utilizing the profile of the Airport;
3. obtained rental rates (and related information) from the Airport and comparable and competitive airports identified;
4. analyzed the data obtained from the Airport and comparable and competitive airports identified;
5. analyzed national and regional data; and
6. developed an opinion of market rent for the Subject Property based on the analysis of the Airport, comparable and competitive airports, as well as national and regional data in conjunction with Limiting Conditions outlined in the Appendix.

In drawing opinions of market rent for the Subject Property, consideration was given to those factors that typically affect market rents for on-airport, aeronautical properties (e.g., property use, attributes, restrictions, limitations, etc.). Beyond this, AMCG's opinion of market rent for the Subject Property has been formed based on a comparative analysis of current rents for on-airport, aeronautical properties at national, regional, comparable, and competitive airports and the Airport. It is significant to note that the rental rates currently being charged for non-aeronautical improved land were not included in the national, regional, comparable, and competitive market rents but were utilized as a point of reference to derive the opinion of market rent conveyed in this summary report.

Market rents for off-airport, non-aeronautical properties were not utilized as this approach is highly problematic due to the different types of land use. The adjustment between off-airport, non-aeronautical properties and on-airport, aeronautical properties would have to reflect the fact that these land uses do not exhibit the same bundle of rights. It is very difficult, if not impossible, to determine the adjustment applied to unencumbered off-airport, non-aeronautical rental rates to reflect the constraints imposed by the Federal Aviation Administration (FAA), the airport owner/operator, and/or others pertaining to the development and/or use of on-airport, aeronautical properties.

When rendering an opinion of market rents for on-airport, aeronautical properties, the cost of the real property (land and/or improvements) and desired rates of return are not typically considered. While these factors may be considered when rendering an opinion of market rents for off-airport, non-aeronautical properties or may be considered by real estate investors, these factors are not generally consistent with the realities of the prevailing market for on-airport, aeronautical properties. Therefore, AMCG's opinion of market rent was not based on the cost of real property or desired rates of return.

D. Key Underlying Assumptions

It is noteworthy that the market rent opinions conveyed in this Rent Study Summary are based on the lessee having full (unrestricted) and continued access (from the Subject Property) to the Airport's airside and landside infrastructure. Additionally, it is important to note that the analysis was based on an evaluation of triple net lease rates (wherein the lessees pay maintenance, utilities, insurance, and taxes associated with the Subject Property).

Market rents are driven by the amount a willing buyer (lessee) pays to a willing seller (lessor). To the extent that local economic factors affect rental rates at the national, regional, comparable, and competitive airports, these economic factors will be reflected in the rental rate conclusions. To derive the market rent opinions for the Subject Property, AMCG has identified and analyzed (on a comparative basis) the rents being charged and paid for similar properties (by component) at a cross-section of airports that are considered most comparable to the Airport.

AMCG recognizes that there are differences between the Airport and the comparable airports. Some of the comparable airports exhibit superior characteristics and some exhibit inferior characteristics. In an effort to identify airports that were considered most comparable to the Airport and to draw conclusions that reflect the conditions at the Airport, the comparable airports were compared with the Airport using a number of aeronautical activity and infrastructure indicators, as well as economic variables.

E. Subject Property Overview

Based on information provided by the City, AMCG understands the proposed Subject Property consists of approximately 37,000 square feet of Non-Commercial Improved Land. The Non-Commercial Improved Land is located on the north side (as identified in Figure 1 and photographs in Figure 2) of the Airport and has average access.

Figure 1 – Airport Overview



For reference purposes only

Figure 2 – Subject Property Identification Map



F. Study Findings

In order to derive an opinion of market rent for the Subject Property, information from similar properties at the Airport as well as national, regional, comparable, and competitive airports were analyzed. As a supplement to the comparable and competitive airport data, rents obtained from more than 500 airports located throughout the United States were analyzed as well as rents obtained from more than 90 airports in the FAA Western-Pacific Region (consisting of Arizona, California, Hawaii, and Nevada)¹ were analyzed.

¹ While American Samoa, Commonwealth of the Northern Mariana Islands, and Guam are included in the FAA Western-Pacific Region, rents from airports in these territories were not included or analyzed.



The selection of comparable airports was based on the following aeronautical activity and infrastructure parameters:

Table 1 – Criteria Parameters

Criteria	Acreage	Longest Runway	GA Itinerant Operations	GA Total Operations	Based Aircraft
High	700	7,000	18,000	75,000	145
%	34%	26%	47%	47%	49%
Deviation	176	1,455	5,720	24,050	48
Number	524	5,545	12,280	50,950	97
Deviation	274	1,545	6,280	25,950	47
%	52%	28%	51%	51%	48%
Low	250	4,000	6,000	25,000	50

Based on the criteria and parameters identified, rental rates and related information from 7 airports were obtained and analyzed as shown in Table 2.

Table 2 – Comparable Airports

Comparable Airports		
Airport	Identifier	Location
Cleburne Regional Airport	CPT	Cleburne, Texas
Hazleton Regional Airport	HZL	Hazleton, Pennsylvania
Mandan Municipal Airport	Y19	Mandan, North Dakota
North Little Rock Municipal Airport	ORK	North Little Rock, Arkansas
Spanish Fork Airport Springville-Woodhouse Field	SPK	Spanish Fork, Utah
West Bend Municipal Airport	ETB	West Bend, Wisconsin
West Georgia Regional Airport – O.V. Gray Field	CTJ	Carrollton, Georgia

It is significant to note that only airports without an air traffic control tower and without a precision approach have been included in the list of comparable airports.

The selection of competitive airports was based on the relative proximity to the Airport. Additionally, each identified competitive airport was compared to the Airport based on (1) infrastructure and (2) available products, services, and facilities. For the purposes of this study, a total of 4 airports within approximately 55 nautical miles of the subject airport have been analyzed as shown in Table 3:

Table 3 – Competitive Airports

Competitive Airports		
Airport	Identifier	Location
Fresno Chandler Executive Airport	FCH	Fresno, California
Modesto City – County Airport – Harry Sham Field	MOD	Modesto, California
Pine Mountain Lake Airport	E45	Groveland, California
Visalia Municipal Airport	VIS	Visalia, California



It is significant to note that some airports with a control tower and precision approach have been included in list of competitive airports. While these airports may be superior to the subject airport in this area, these airports were considered competitive (to the subject airport) based on the relatively proximity of these airports to the subject airport.

Table 1 provides a summary and statistical analysis of the findings for the national, regional, comparable, and competitive airports.

Table 4 – Non-Commercial Improved Land Data Summary

Non-Commercial Improved Land Conclusions Summary						
Component	Minimum	Maximum	Mean	Standard Deviation	Median	Range
National Airports	\$0.02	\$1.03	\$0.26	\$0.18	\$0.22	\$1.01
Regional Airports	\$0.07	\$1.03	\$0.32	\$0.24	\$0.25	\$0.96
Comparable Airports	\$0.08	\$1.00	\$0.37	\$0.27	\$0.37	\$0.92
Competitive Airports	\$0.05	\$0.95	\$0.47	\$0.28	\$0.50	\$0.90

All rental rates are "per square foot per year" (psf/yr)

G. Rental Rate Summary

The results of the study indicate that the average rental rates for Non-Commercial Improved Land range from \$0.26 psf/yr at national airports to \$0.47 psf/yr at competitive airports. The average rental rate at regional airports was \$0.32 psf/yr and \$0.37 psf/yr at comparable airports. It is significant to note that the average rental rate for Non-Commercial Improved Land up to 49,999 square feet in the national database exhibits an adjustment of approximately -5% (based on size).

Predicated on this analysis, and adjustments for size and access a market rent opinion range of \$0.30 - \$0.35 psf/yr was established.

II. APPENDIX

A. Definitions

- Improved Land – Airport land having access (airside and landside) and utilities to the property boundary.
- Median - Figure wherein half of the data points in the number series are below the median value while half of the data points are above the median value.
- Minimum - Minimum value present in the data range.
- Maximum - Maximum value present in the data range.
- Mean - Arithmetic average of all data in the data range.
- Non-Commercial - Not for the purpose of securing earnings, income, compensation (including exchange or barter of goods and services), and/or profit.
- Standard Deviation - Statistical method designed to mathematically measure the variability in a set of data points. The calculated figure for standard deviation is indicative of the relative distance between the mean and every data point. For a normally distributed data range, approximately 68% of the data points would fall within one standard deviation of the mean, as illustrated by a normal bell curve. Similarly, approximately 95% of the data points would fall within two standard deviations, while approximately 99.7% of the data points would fall within three standard deviations of the mean. Assuming the data points from the airports are representative of the population and the population follows a normal bell curve, the calculated standard deviation values would illustrate the relative variability in data points (i.e., how close these data points are to the mean).
- Range - Mathematical difference between the maximum and minimum values of the data range.

B. Limiting Conditions

This report is subject to the following conditions and to other specific and limiting conditions as described by Aviation Management Consulting Group, Inc. (AMCG) in this report.

1. AMCG assumes no responsibility for matters legal in nature affecting the Subject Property, nor does AMCG render any opinion as to the title of the Subject Property, which are assumed to be good and marketable. The Subject Property have been analyzed as though free and clear and held under responsible ownership and competent management.
2. Information, estimates, and opinions furnished to AMCG and contained in this report were obtained from sources considered to be reliable and are believed to be true and correct. However, AMCG assumes no responsibility for their accuracy.
3. Although parcel dimensions were taken from a source considered reliable, this should not be construed as a land survey. A licensed engineer or land surveyor should verify the exact land size and legal description.
4. Unless noted in this report, the rental rate conclusions do not include contributory value of any personal property, furniture, fixtures, equipment, or on-going business value.
5. It is assumed that the utilization of the land is within the boundaries or property lines of the Subject Property and that there is no encroachment or trespass unless noted in this report.
6. This report is prepared for the sole, exclusive use of the client. No third parties are authorized to rely on this report without the prior written consent of AMCG and the client.
7. It is assumed that all applicable zoning and use regulations have been complied with unless non-conformity was stated, defined, and considered in this report.
8. It is assumed that all required licenses, certificates of occupancy, consents, or other legislative or administrative authority from any local, state, or federal government or private entity or organization have been or can be obtained or renewed for any use on which the rental rate conclusions are based.
9. Full compliance with all applicable federal, state, and local environmental regulations and laws is assumed unless noncompliance is stated, defined, and considered in this report.

10. In this assignment, the existence of potentially hazardous material, gases, toxic waste, and mold, which may or may not be present on the Subject Property, nor does AMCG have any knowledge of the existence of such materials on the Subject Property. To AMCG's knowledge, the presence of potentially hazardous waste, materials, or gases has not been detected, or if detected, it has been determined that the amount or level is considered to be safe according to standards established by the Environmental Protection Agency (EPA). However, AMCG is not qualified to detect such substances and does not make any guarantees or warranties that the Subject Property have been tested for the presence of potentially hazardous waste, gases, toxic waste, or mold and, if tested, that the tests were conducted pursuant to EPA-approved procedures. The existence of any potentially hazardous waste, gases, toxic waste, or mold may have an effect on the rental rate conclusions.
11. The American with Disabilities Act (ADA) became effective January 26, 1992. AMCG has not made a specific compliance survey and analysis of the Subject Property to determine whether or not the Subject Property are in conformity with the various detailed analysis of the requirements of the ADA. It is possible that a compliance survey of the Subject Property together with a detailed analysis of the requirements of the ADA could reveal that the Subject Property are not in compliance with one or more of the requirements of the ADA. If so, this fact could have a negative impact on the market rent conclusion. Since AMCG has no direct evidence relating to this issue, possible noncompliance with the requirements of the ADA was not considered in the rental rate conclusions.
12. AMCG assumes there are no hidden or unapparent conditions of the Subject Property or subsoil that would render the Subject Property more or less valuable. AMCG assumes no responsibility for such conditions or for engineering that might be required to discover such factors.
13. No requirements shall be made of AMCG to give testimony or appear in court by reason of this report, unless arrangements have been made previously. If any courtroom or administrative testimony is required in connection with this report, additional fees and expenses shall be charged for those services.
14. Possession of this report, or copy hereof, does not carry with it the right of publication nor may it be used for any purpose whatsoever by any entity but the client without the prior written consent of AMCG and the client.
15. Neither all nor any part of the contents of this report shall be disseminated to the public through advertising media or public means of communication without the prior written consent of AMCG and the client.