Heber City Airport/Russ McDonald Field

Lease Rates and Policy Analysis

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INTRODUCTION

It is essential for airports to charge fees that are both fair and reasonable for users and tenants, as well as assist in covering the operating costs of the airport. The purpose of the Lease Rates and Policy Analysis (Study) is to provide guidance and recommendations in achieving these two goals. The data collected as part of this study will help Heber City/Russ McDonald Field's (Heber) establish fair lease rates and policies for the future.

The Lease Rates and Policy Analysis is a companion document and the basis for the "Leasing Policy". The Study reviews existing airport lease rates and compares lease rates of similar airports to Heber City Airport. It identifies Heber City Airport's overall market position, ascertains the adequacy of the airport's leasing structure and policy, and recommends where improvements should be considered.

The foundation of this Study is the airport survey. The survey gathers leasing information from airports that are in similar markets, size and direct competitors.

The data gathered is a gauge to compare Heber City Airport's lease rates and provide assistance with the establishment of future rates within the context of the airport's market environment. It should be stated that a lease rates analysis does not supplement a property appraisal for specific lease negotiations.

The key objective of this Study is to analyze lease rates at comparable airports. This was accomplished by:

1. Obtaining and reviewing the existing leases and lease rates at the airport.
2. Identifying current lease issues and concerns.
3. Working with the Airport Board to develop a list of similar airports or airports that compete in the same market.
4. Survey airports on their lease rates and practices.

SECTION 1 – AIRPORT MARKET PROFILE

Heber is a general aviation airport in Wasatch County, located approximately 1 mile south of Heber City's central business district. The airport serves Wasatch County and the most populated area of Summit County. The airport is owned and operated by Heber City.

The airport serves the general aviation needs for the area, including Heber City, Midway and Park City. Four of Utah's Ski Resorts are in close proximity to the airport, including three of the largest ski resorts in the state; Deer Valley, Park City and the Canyons.

OK3 Air is the only Fixed Based Operator (FBO) at the airport and services the 73 single engine, four twin engine, four helicopters and four jets based at the airport. It is a full-service FBO that offers line services, aircraft maintenance, flight training, aircraft sales, private charter planes, and scenic flight tours.

SECTION 2 – SURVEYED AIRPORTS

In order to collect and review lease rates for airports similar to Heber City Airport, criteria were developed to determine a list of comparable airports. The following criteria were used to develop the list of airports shown in Table 1:

- Similar airports located within 50 miles of Heber;
- Airports of similar size and scope in terms of ownership and use, type, and based aircraft;
- Airports in similar type of communities: aircraft operations and resort towns.

Table 1
Airports Considered for Comparison

Airport	Distance	Ownership /Use	Airport Type	# of Based A/C	Operations	Comparable Criteria
Heber City Municipal		City	GA	73	19,468 (2011)	Resort Town
South Valley Regional	50 miles	City	GA	165	75,000 (2011)	Competitor
Provo Municipal	30 miles	City	CS	104	172,014 (2011)	Competitor
Driggs-Reed Memorial	285 miles	City	GA	81	7,600 (2006)	Resort Town
Aspen-Pitkin County	340 miles	County	CS	77	36,900 (2013)	Resort Town
Grand Junction Regional	270 miles	City	CS	99	50,987 (2013)	Similar Size
Friedman Memorial (Hailey)	320 miles	City	CS	147	44,237 (2012)	Resort Town
Garfield County Regional (Rifle)	280 miles	County	GA	52	8,129 (2011)	Resort Town
Montrose Regional	330 miles	County	CS	81	26,460 (2012)	Resort Town
Yampa Valley (Hayden)	270 miles	County	CS	4	9,677 (2011)	Resort Town
Eagle County Regional	330 miles	County	CS	78	36,401 (2012)	Resort Town

Source: U.S. Department of Transportation Federal Aviation Administration, Airport Master Record, Accessed 2013

Surveys were sent to each airport requesting relevant lease information not provided on their public airport master record. If a response was not received, the airport was contacted and information was gathered over the phone.

The airports were provided with a matrix designed to gather information in five areas of interest with respect to leases, fees, investments, lease clauses, inflators, and any additional information that the airport could provide that would assist with the analysis. The survey results are provided in Table 2.

Table 2
Survey Results

Airport	Hangar Information					Lease Information			Lease Terms		Escalation Clauses			
	No. Hangars	No. Sponsor owned Hangars	Hangar Built in 2012	Hangars Built 2009-2011	Waiting List	Ground Lease Type	Lease Amount per sqft/yr	% Gross Revenue	Initial Term-Yrs	Extensions available	Y/N	Basis	Freq.	Reversionary Lease
Heber City Municipal	67	3	0	9	No	Improved	$0.30		20	two 5yr	Yes	CPI	Annual	Yes
						Non-improved	$0.15		20	two 5yr				
South Valley Regional	140	140	0	0	Yes	Commercial/Improved	$0.18		15+	Yes	Yes	Chart	5 yrs	Yes
Provo Municipal	97	47	3	18	Yes	Improved	$0.28	55%	30	two 5yr	Yes	CPI	2 yrs	Yes
Driggs-Reed Memorial	71	1	0	6	No	Improved	$0.22		20	infinite 5 yr	Yes	CIP	Annual	No
Aspen-Pitkin County						Improved	$0.47		3-5					Yes
Grand Junction Regional						Improved	$0.18		20	one 10yr		CPI		Yes
Friedman Memorial (Hailey)														
Garfield County Regional (Rifle)						Improved	$0.21					CPI	Annual	Yes
Montrose Regional	33	5	0	1	No	Private Hangar	$0.19		20	10 years	Yes	CPI	Annual	No
						Commercial Aeronautical	$0.10		Negotiable	Negotiable	Yes	CPI	Annual	Negotiable
Yampa Valley (Hayden)	7	1	0	0	Yes	Private Hangar	$0.15	5%	35	5 years	Yes	CPI	Annual	Yes
						Commercial Aeronautical	$0.26	5%	35	5 years	Yes	CPI	Annual	Yes
						Other Aeronautical	$0.26	5%	5	No	Yes	CPI	Annual	Yes
						Commercial Non-Aeronautical	$0.26	10%	5	No	Yes	CPI	Annual	Yes
						Industrial	$0.26	10%	5	No	Yes	CPI	Annual	Yes
Eagle County Regional	15	9	0	1		Private Hangar	$0.35		25	yes	Yes	CPI	Annual	Yes

Source: Jviation Inc., 2013

SECTION 3 – SUMMARY OF KEY FINDINGS

After reviewing the data collected, several observations were made from the averages of the data and most common answers, as depicted in Table 3.

- The average lease amount per square foot was $0.24.
- The initial lease terms ranged from 5 years to 30 years, with 19 years being the average.
- Nearly every airport offer some sort of extension, after the initial lease term. The extensions are primarily used to update the lease agreements. A five year extension is the most common.
- Every airport's lease included an escalation clauses based on CPI, with most of the escalations occurring annually.
- All but one airport have reversionary leases; however, the terms of the reversionary clause varied by airport.
- The most common extensions, beyond the initial lease terms, were based on the amount (in dollars) of improvements.

Table 3
Summary of Key Findings

	Survey Question	Average/Most Common	Heber City
Hangar Information	No. Hangars	61	67
	No. Sponsor owned Hangars	29	3
	Hangar Built in 2012	1	0
	Hangar Built 2009-2011	5	9
	Waiting list	Varies	No
Lease Information	Ground Lease Type	Varies	Improved and Unimproved
	Lease Amount per sqft/yr	$0.24	$0.30/$0.15
Lease Terms	Initial Term	19 years	20 years
	Extensions available	Yes – 5 years	Yes – 2, 5 year extensions
Escalation Clauses	Y/N	Yes	Yes
	Basis	CPI	CPI
	Frequency	Annual	Annual
	Reversionary Lease (Y/N)	Yes	Yes

Source: Jviation Inc., 2013

SECTION 4 – OBSERVATIONS AND RECOMMENDATIONS

Heber City Airport has leasing policies in place that have worked efficiently in the past; however, the policies may not account for the change in operations and demand for hangars that the airport is starting to experience. In order to determine how the existing policies and rates compare to similar airports, the existing rates and policies at Heber City Airport were compared to the surveyed airports and overall averages from the survey data.

Observations

A collective look at the data gathered through the surveys gives a general idea of what the market trends are for airports similar to Heber City Airport. Table 4 depicts how Heber City Airport compares to market trends. Observations gathered from the survey are:

- Rates: The rates at Heber City Airport are slightly higher than many of the airports surveyed; however, airports with similar demographics (Aspen and Eagle) charged more than Heber City Airport. It should also be noted that Heber City Airport charges $0.30 per square foot of the hangar footprint and then $0.15 for an additional 15 feet around the hangar. Many airports charge the same rate for the building footprint and the 15 foot perimeter. As such, the total rate charged at Heber is less than $0.30 per square foot which brings the rate in line with the market trends.

- Commercial Lease Value: It is likely that a commercial appraisal of the hangar pads would show the rates of return, for the current economic conditions, as being undervalued.

- Growth: Hangar construction is in line with market trends as Heber City Airport experienced roughly a 13% growth with the construction of nine hangars between 2009 and 2011. The majority of the hangars built during this time period were by the airport sponsors.

Table 4
Leasing Observations and Recommendations

	Survey Question	Average/Most Common	Heber City	Observation
Hangar Information	No. Hangars	61	67	In-line with Market
	Sponsor owned Hangars	29	3	Lower than Market
	Hangar Built in 2012	1	0	In-line with Market
	Hangar Built 2009-2011	5	9	In-line with Market
Lease Information	Ground Lease Type	Varies	Improved and Unimproved	NA
	Initial Lease Amount per sqft/yr	$0.24	$0.30/$0.15	In-line with Market
	% Gross Revenue	15%	NA	NA
Lease Terms	Initial Term	19 years	20 years	In-line with Market
	Extensions available	Yes, 5 years	2, 5 year extensions	In-line with Market
Escalation Clauses	Y/N	Yes	Yes	In-line with Market
	Basis	CPI	CPI	In-line with Market
	Frequency	Annual	Annual	In-line with Market
	Reversionary Lease (Y/N)	Yes	Yes	In-line with Market

Source: Jviation Inc., 2013

Recommendations

From the observations and data collected, recommendations for the Airport's future lease and rates were developed. In general, Heber City Airport is very comparable to the airports surveyed and the market trends. However, for the Airport to capitalize on the emerging market demand at Heber City Airport, the following recommendations are given:

- Hangar Ownership: The number of hangars owned by Heber City Airport is much less than most of the airports surveyed. This hinders the amount of control the airport has on the hangars and ultimately land use. As demand increases for hangar space and development, it will become critical for the airport to have more control over each hangar. As such, it is recommended that the practice of using reversionary clauses in the leases be continued. Table 5 provides a summary of the rental rates from hangars that are owned by the airport.

- Lease extension: If the land is not needed by the airport for current or future development many airports with reversionary leases offer lease extensions for capital improvements to the hangars. The duration of the extension is based upon the cost of the capital improvement. At the surveyed airports, a fixed dollar amount was used to determine the length of the extension. The amount needed to qualify for the extension was adjusted periodically. The size or value of the hangar was not taken into account. At one airport the age of the hanger was a factor. Capital improvements on older hangers could only use a fraction of the investment to qualify for an extension.

An extension based upon a set dollar amount was not found to be practical as it would need to be updated over time. It is recommended that extensions be offered for improvements worth 1/30 of the value of a new hangar of similar size.

For example a lessee has 10 years left on the lease and installs a new hangar door. The new hangar door costs $5,000. A new hangar of similar size currently sells at the airport for $150,000. The number of years the lease would be extended would be 1 year for every $5,000 of verifiable and airport approved improvements ($150,000 divided by 30). In this example the hangar owner would qualify for 1 additional year on their lease.

- Future Rates: The demand for new hangars will eventually exceed the existing buildable hangar space and new hangars will need to be constructed. It is recommended that when the airport reaches maximum capacity for new hangars, appraisal values be used to establish lease rates.
- Future Commercial Rates: To ensure market value is maintained, at the end of the current life of the commercial hangar leases, the lease should go through a competitive process to establish an updated rate.

Table 5
Summary of Reversionary Lease Data

Survey Question	Average/Most Common
Rent Base on (sq. ft., flat)	Flat Fee
Approx size of Hangars	1552 sq. ft.
Monthly Rent Amount	>10,000 sq. ft. (Flat Fee) - $3,764.27
	<2500 sq. ft. (Flat Fee) - $242.33
	<2500 sq. ft. (Sq. Ft.) - $0.25

Source: Jviation Inc., 2013

- It is recommended that non-commercial hangar leases be standardized. The Commercial leases currently utilized at the airport have been tailored to meet the business models at the airport. Some degree of flexibility should be maintained when dealing with current and future businesses at the airport. Recommendations for the leases are as follows:

a. **Hangar Row**

The hangars comprising "Hangar Row" were built between 1989 and 1993. The hangar leases are reversionary lease for a term of 30 years. The leases are non-escalating and are for a flat fee for $50 per year. The first leases granted will come due in 2019. The area where these hangars sit will be needed for future development if the airport decides to expand to meet the demands of aircraft that are already operating at the airport. It is suggested that none of the leases in this area be extended. Depending on the economic conditions at the time of reversion, the City can either, remove the hangars or rent them on a month to month basis. The FAA currently has funding place holders for the airport upgrade in 2021.

It is likely that relocation or condemnation will be necessary if the airport upgrade comes to fruition in or before 2021. The City should provide airport land and/or improvements that are comparable to the improvements currently being occupied by these lessees. If comparable airport land or improvements are not available, the City should buyout the leasehold interest held by the lessee at the market value determined by an appraiser.

b. Daniel Hangars 2 - 22

The Daniel Hangars 2-22 were built between 1995 and 2008. These hangar leases are non-reversionary leases with terms of 20 years and one 5-year extension. The leases have an escalation clause and were initially set at $0.25 per sq. ft. per year for improved and $0.125 per sq. ft. per year for unimproved. No provision has been made to deal with the lessees or improvements at the end of the lease. One hanger owner (hanger 5) has opted for a 30 year (20 yr plus two 5 years extensions) reversionary lease instead of a non-reversionary lease.

The land in which the hangars are currently located on has not been identified as being needed for future development. It is recommended that a 5-year reversionary lease be offered at the end of the 25 years (the initial term and the 5 year extension), but only if the hangar is in good condition.

If the hangar is in poor condition, then the hangar owner will retain the improvements (the hangar structure) and be required to remove it from airport property. Heber City will at all times will maintain ownership of the property.

If the hangar is in good condition at the end of the reversionary lease, the City can do what is economically best for the City. The options include, but are not limited to:

- Month to month leases, giving the prior lease holder the first right of refusal to rent the hangar
- Resell the hangar and issue a new lease (giving the prior lease holder the first right of refusal to purchase the hangar)
- Remove the hangar

It would be advantageous to implement a means for extending the leases on these 20 hangars beyond 30 years. Following the recommendation previously laid out in this study, extensions could be offered to the lessees for improvements worth 1/30 of the value, of a new hangar of similar size.

c. Daniel Hangars 23 – 30

The Daniel Hangars 23 -30 are comprised of 8 hangars the City built in 2009. These hangar leases are reversionary leases with terms of 20 years and two, 5-year extensions. The leases have an escalation clause. The hangars are 75'x75' on 95'x95' pads. The 75'x75'area under the hangar is initially leased at $0.30 per sq. ft. The additional 15' around the hangar is leases at a different rate; $0.15 per sq. ft. per year. No provision has been made to deal with the lessees or improvements at the end of the lease. It is anticipated that the structure and the land will revert to the City at 30 years. If the hangar is in good condition at the end of the reversionary lease, the City can do what is best economically for the City. The options include, but are not limited to:

- Month to month leases, giving the prior lease holder the first right of refusal to rent the hangar
- Resell the hangar and issue a new lease (giving the prior lease holder the first right of refusal purchase the hangar)
- Remove the hangar

It would be advantageous to implement a means for extending the leases in this area. It is recommended that extensions be offered for capital improvements to the hangar or leased pad.

d. Commercial Apron Area

Accommodations have been made to commercial operators at the airport. Geographically these buildings surround the main apron. Their lease terms and rates differ slightly from the reversionary hangar leases. Commercial leases have been extended to the commercial operators that meet the "Minimum Standards" adopted by the airport. The lease terms have been negotiated with the Airport Board and approved by the City Council. The terms are based upon the business model and economic benefits that the business will bring the airport and community.

Additional discussions on the commercial leasing practices are needed before specific recommendations can be given.

Appendix A
Reversionary Lease Information

Survey Response – Reversionary Leases

	Reversionary Leases								
Airport	**Extension Mechanism**	**Length of Extension**	**Hangar Ownership**	**Age of Hangars (yrs)**	**Condition of Hangar Group**	**Rent Amount**	**Approx Size of Hangars**	**Rent Amount**	**Utilities Included**
South Valley Regional	Yes	Varies	Private						
			Private						
			Airport	10	Good	Flat Fee	1,554 Sq. Ft	$310.00/mth	Yes
			Airport	30	Fair	Flat Fee	1,400 Sq. Ft	$233.00/mth	Yes
			Airport	30	Fair	Flat Fee	1,702 Sq. Ft	$310.00/mth	Yes
Provo Municipal	Yes	Varies (See Note)	Airport	30	Fair	Flat Fee	<2500 Sq. Ft	$225.00/mth	Yes
			Airport	10	Good	Flat Fee	<2500 Sq. Ft	$300.00/mth	Yes
			Private	30+	Poor to Fair	sqft	<2500 Sq. Ft	$0.15/sqft/yr	
			Private	10-	Good	sqft	<2500 Sq. Ft	$0.28/sqft/yr	
			Private	10-20	Good	sqft	<2500 Sq. Ft	$0.28/sqft/yr	
			Private	20-30	Good	sqft	<2500 Sq. Ft	$0.28/sqft/yr	
			Private	30+	Fair	sqft	<2500 Sq. Ft	$0.28/sqft/yr	
Grand Junction Regional			Both					$0.42/ sq ft/yr	No
Yampa Valley (Hayden)	Improved	5 years							
	Improved	5 years							
			Private	<10	Good	Flat Fee	>10,000 Sq. Ft	$2,041.32/mth	No
			Private	<10	Good	Flat Fee	>10,000 Sq. Ft	$3,090.52/mth	No
			Private	<10	Good	Flat Fee	>10,000 Sq. Ft	$6,160.96/mth	No
Eagle County Regional	NA	2, 5 year extensions							

Source: Jviation Inc., 2013

Appendix A
Reversionary Lease Information

Survey Response – Notes on Reversionary Leases

Airport	Extension Mechanism Note	General Remarks
South Valley Regional	1- 15 Yr for initial lease term with an investment up to $111,500, an additional year for every $65,000	First Right of Refusal once lease is up at new rate
	2- 50% of tenant investment is recognized in the first half of lease, 25% in the last half for improvement of $65,000 or more	
Provo	1Yr extension with for every $9000 of improvements.	At the end of the lease the lease can continue to lease the building at the same rate, but the ownership cannot change and it cannot be subleased.
Aspen-Pitkin County		Option to buy back or it reverts to airport
Grand Junction Regional		Tenant can remove the hangar or it reverts to airport

Source: Jviation Inc., 2013