

Top 10 Tips and Tricks to Help Your Airport Leases Soar

Presenter:

Amanda Johnson, Attorney



Three Types of Leases

1. Ground Lease
2. Building Lease
3. T-Hangar Lease

Ground Lease

Just like it sounds, this is a lease for the real estate only, not the building. This can be a good lease to use if the tenant is going to build or perhaps do a major rehab to the existing structure on the property.

The structure is owned by the tenant. At the end of the lease, the tenant can remove the structure, but more commonly it is old (often with lots of deferred maintenance) and left on the property for the landlord to deal with.

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Building Lease

Normal lease, you are leasing the structure.

At the end of the lease term, everything goes back to the landlord.

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T-Hangar Lease

Short-term lease, typically 1 year. These leases may be for an entire hangar or just a bay within a larger hangar.

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Top Ten Lease Terms to Think About

1. FAA requirements
2. Scope of use
3. Maintenance
4. Inspections
5. Rent increases
6. Auto renewal
7. Default (delinquent payment, violating use requirements, failing to maintain)
8. Timeframe for construction of improvements
9. Ownership of improvements at the end of the lease (reversion clause)
10. Insurance

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FAA Requirements: Because if you want their money, you play by their rules

So, what does the FAA require:

- The hangar must be used only for aeronautical uses or available for an aeronautical purpose. If the tenant wants do something non-aeronautical, you must get written permission from the FAA first.
- Lease cannot be longer than 50 years, this includes all automatic renewals. (Due to other legal rules, no longer than 40 years would be best.)
- No exclusive rights language.
- Lease needs to include the FAA minimum standards (typically included as an exhibit to the lease)

Even if you aren't currently cozy with the FAA, putting these terms in your leases now will allow you to explore future financial opportunities.

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Scope of Use: Because this is an airport, not a mini-storage

What do you want them to be able to do in the hangar?

- Repair?
- Build?
- Assemble?
- Maintain?
- Store?
- Test?
- Sell?
- Lessons?
- Run a business?

Be specific about what they can and cannot do in the space



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Maintenance: Because this will all be yours one day

- Clearly define the expectations for every aspect of maintenance.
 - Heating, venting, HVAC
 - Plumbing
 - Roof
 - Electrical
 - Mechanical
 - Structural
 - Fire sprinkler system
 - General cleanliness
 - Concrete/asphalt
 - Trash
 - Painting
 - Snow removal

Clearly define the expectation for maintenance frequency and quality. This is very helpful if you need to evict a problem tenant who is still paying the rent. Give yourself the ability to fix anything that needs fixing and bill the tenant.



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Inspections: Because they help keep everyone honest

Give yourself the ability to inspect the premises in emergency situations, upon request and annually.

Do the annual inspections.

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Rent
Increases:
Because
inflation is
real and not
transitory

Think about how you want to structure your rate increases:

Annually?

At every renewal?

Regarding rent collection in general:

Monthly?

Annually?

Up front? (maybe a good method for a T-Hangar lease to avoid chronically late/non-payers)

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Automatic Renewal: Because you might want to break up



Instead of setting up a long-term lease with one long term, break it up into four or five short terms with an automatic renewal. If everything is going great, it will automatically renew. But, if for whatever reason (better tenant opportunity, changes to airport, etc.), you want to end it, you have multiple opportunities to issue a notice that the lease is not going to renew.



It is generally easier to get someone out when a lease is expired than if a lease is terminated (there is less to argue about).

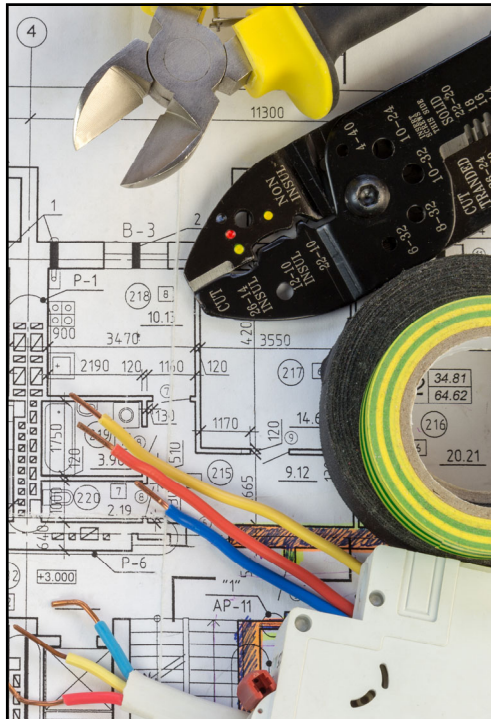
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Default: Because it is important to plan for all the ways this could go wrong

Effective default provision requires:

1. Clearly defined reasons for default (missed payment, violation of lease term, failure to meet a required deadline, bankruptcy, etc.)
2. Clearly defined notice requirement detailing how the notice can be served (mailed, in person, emailed, etc.). Notice should be in writing.
3. Time to clear to default. Amount can be adjusted for reason for default.
4. List of all the possible consequences: Take back premises, eviction, injunction, damages (make sure to include attorneys fees), immediate termination of lease.

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Timeframe for Construction of Improvements: Because this isn't your first rodeo

If you have a tenant who is going to build a new hangar, it is critical to address all the related expectations in the lease.

You should clearly articulate a timeline for construction, how it will be constructed, who is doing the construction, who gets to approve the various aspects of construction (hint, that should be you) and what happens if that timeline is not met.

You should also make it clear a violation of this section is a default on the lease.

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Ownership of Improvements: Because you don't want to be stuck holding the bag

Things to think about:

- A ground lease often gives the Tenant the ability to remove the improvements provided they repair any damage to the real estate
- Good to include words that say at the expiration of the lease, whatever is left on the premises belongs to the landlord
- In some cases, you may want to require they remove the improvements. Make sure to include a financial deposit related to that removal. Collect it at the beginning of the lease to use in the event they do not remove the improvements.

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Insurance: Because we got 99 problems but liability ain't one

- ❖ Tenants should carry insurance on all improvements at 100% of the fair market value of the property or the insurable value, whichever is greater.
- ❖ Tenants should also carry coverage for all their personal property.
- ❖ Municipalities have a tort liability cap in state law:
\$500,000 on any claim per individual and \$1,500,000 from all claimants for one incident. If a City waived the tort limits, the claims would be limited to \$2,000,000.
Make sure your lease requires the tenant to get coverage up to the municipal tort cap and list the city as an additional insured. They need to provide you will proof of insurance.

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Thank you for your time

