



VNY Airport Proposed Real Estate Redevelopment Plan

Los Angeles World Airports
Board of Airport Commissioners
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Topics for Today's Discussion

1. Master Plan Process and Consequences
2. Management Focus and Major Accomplishments in Recent Years
3. Situation Assessment and Challenges
4. Redevelopment Vision and Opportunities
5. Focus Going Forward
6. Next Steps

Master Plan Process and Consequences

- **The VNY Master Plan Study**
 - Commenced in 1992
 - Completed in 2006
- **Consequences**
 - During the 14 year study process development at VNY was at a standstill
 - Of the 48 tenants at VNY, over 50% without leases
 - All tenants owed “back rent”, some for over 15 years
 - Amended Leasing Policy
 - Little or no correlation between Leasing Policy and any defined overall VNY business objectives or strategic vision
 - Few results from Leasing Policy desirable
 - “Uneven playing field” issues including (1) scattered land rental rate outcomes and (2) episodic regulation of fueling rights



Management Focus in Recent Years






- **Financial Deficit Reduction**
 - 2007 had an annual operating deficit of $-\$4.8$ million and an overall deficit, including depreciation charges, of $-\$7.1$ million
 - Even after cost management initiatives, the “disconnect” between an appraisal-based real estate revenue model and the actual cost of operating VNY is significant
- **Address longstanding issues of concern without neglecting critical path development opportunities:**
 - Outstanding “legacy” business issues – 70% of efforts
 - Developing new business and facilities - 30% of efforts
- **Take steps toward leveling the playing field among competitors**
- **Recognize the changing financing/lending environment since 2008 and adapt to it**

Major Accomplishments at VNY in Recent Years

1. **Environmental:** Completion of residential soundproofing initiatives – 779 dwellings at a total cost of \$10 million. Designated in July 2012 as “zero noise impact area” under State Title 21.
2. **LAFD:** 122,000 sq. ft. Ops Facility completed in 2008
3. **Aerolease:** 106,000 sq. ft. hangar/office facility completed cost in excess of \$5 million
4. **Castle & Cooke:** Achieved FBO status. Investment requirement of \$10.8 million under revised agreements
5. **ANG facilities:** Demolished by LAWA at a cost of \$5.5 million to enable PropPark
6. **PropPark:** Approved August 2011, covering 30.6 acres and an investment of \$21. million
7. **NetJets:** Completed June 2012 at a cost of \$7.4 million, nearly five acres developed
8. **Golf Course:** Under new management requiring with \$2.1 million investment required
9. **City “T” Conditions:** Resolved with City and tenants for past developments in 2011
10. **Common Land Rental Rate:** Implemented in May 2011, with 83% of areas concurring
11. **Fuel Flow Fee:** Updated to mid-market rates after 30 years (1979) without any adjustment
12. **Financial Sustainability:** Operating deficit eliminated with a 25% contribution to depreciation costs
13. **Deficit Recovery Program:** Framework established, with future activation as needed
14. **Runway Reconstruction:** Award of runway reconstruction budgeted \$20.5 million, following constructive consultation with VNY users

Situation Assessment and Challenges

1. Updating of appraisal-based building rents with tenants yet to be concluded
2. Seven of 42 (17%) tenants operate with expired leases
3. Six leases expiring in the next 12+ months
4. Aging/obsolete facilities and vacant parcels remain an opportunity. Condition of older facilities below acceptable standard in making VNY attractive to new users
5. Lead time for development and CEQA processes tough to navigate
6. City “T” conditions for future developments
7. Capital availability and economic uncertainty continue to affect potential for new development
8. Cost of new construction remains challenged by low rental rates. Backlog of investment obligations by existing tenants reflects this and current economic environment.
9. Intra-VNY competition for tenants remains in evidence. Strategies to attract new tenants and “increase the pie” needs broader support from all stakeholders.
10. Patchwork premises of old leases remain barriers to aggregating small parcels into viable developments

<i>Facilities Condition Assessment</i>			
Condition		Square Footage	Percent of Total SF
	Poor	17,283	1%
	Fair	337,033	19%
	Average	807,581	44%
	Good	309,015	17%
	Excellent	345,294	19%
Total:		1,816,206	100%

VNY Redevelopment Vision and Opportunities

1. Capitalize on PropPark development by advancing new higher-end opportunities, converting obsolete facilities into ones linked to current demand
2. Focus on redevelopment sites where there are obsolete and beyond-useful-life facilities
3. Achieve better economic development scale and comprehensive campus model by aggregating smaller and isolated vacant parcels
4. Continue to rely on third party development that responds to current business demands and market conditions, but find a better balance between “build on spec” and “build to suit” given lead time for construction
5. A degree of development opportunity “metering” is warranted, given economic uncertainties and capital financing challenges
6. Maintain efforts to have VNY operate as close to financial break-even as possible



PropPark 30.6-acre site



NetJets Terminal



Redevelopment Site

Management Focus Going Forward

- Shift efforts toward future developments. Forecast distribution of staff efforts:
 - “Legacy” initiatives - 25% of efforts
 - Developing new business and facilities - 75% of efforts
- Resolve outstanding issues with Maguire Aviation recognizing backlog of obligations affects market for and financing of new facilities elsewhere at VNY
 - Build on NetJets project success
- Allocate resources to focus major developments on “Woodley East Side” mixed use site having 30.2 acres
- Protect future FAA tower site
- Institute a better program for expired/expiring leases
 - Extensions where desired investment is proposed/warranted
 - Compete expiring FBO site with obsolete facilities
 - Leases of up to three years for tenants where parcels are to be aggregated into future development opportunities, but where action now may saturate development market



Clay Lacy Aviation



FBO Redevelopment Site

Next Steps

- Consult with VNAA and CAC on proposed redevelopment plan
- Resolve market-adjustment building rent through the appraisal exchange process
- Draft RFP for redevelopment of FBO site with expiring lease
- Finish negotiations with Maguire Aviation and Clay Lacy
- Develop and publish a schedule for future development sequence consistent with “metering” strategy and investment/financing support goal
- Offer short term leases for occupied sites to be redeveloped as part of metering program in the future (e.g., Daily Drive area, Hayvenhurst area)
- Formally update Leasing Policy to be consistent with current plans – Make specific to VNY
- Design competitive process for mixed-use aviation-related development on “Woodley East Side” 30.2 acre site



Woodley East Side Site