

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: June 1, 2022

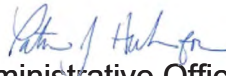
CAO File No. 0150-12081-000

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer



Reference: Communication from Los Angeles World Airports dated April 14, 2022; referred by the Mayor for a report on April 14, 2022

Subject: **PROPOSED LEASE WITH LUFTHANSA CARGO AKTIENGESELLSCHAFT, A GERMAN CORPORATION TO CONTINUE CARGO OPERATIONS AT LOS ANGELES INTERNATIONAL AIRPORT'S IMPERIAL CARGO COMPLEX**

RECOMMENDATION

That the Mayor:

1. Approve the proposed 30-month lease agreement between Los Angeles World Airports and Lufthansa Cargo Aktiengesellschaft, a German Corporation (Lufthansa) for the use of an air cargo handling facility at Los Angeles International Airport's Imperial Cargo Complex, to preserve air cargo operations through October 31, 2024, subject to City Attorney approval as to form and compliance with the City's Standard Provisions, including the: Living Wage Ordinance, Affirmative Action Program, Business Tax Registration Certification, Child Support Obligations Ordinance, Contractor Responsibility Program, First Source Hiring Program, and MLO Bidder Contributions CEC Form 50;
2. Authorize the Chief Executive Officer to execute the proposed lease agreement with Lufthansa, upon approval by the Los Angeles City Council, and prior to the execution of the lease, Lufthansa must:
 - a. Have approved insurance documents, in the terms and amounts required, on file with Los Angeles World Airports; and
 - b. Be determined by Public Works, Office of Contract Compliance to be in full compliance with the provisions of the Equal Benefits Ordinance; and
3. Return the request to the Los Angeles World Airports for further processing, including Council Consideration.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (BOAC) requests approval of a proposed 30-month replacement lease agreement with Lufthansa Cargo Aktiengesellschaft, a German Corporation (Lufthansa) for a 267,482 square foot cargo facility at Los Angeles International Airport's (LAX) Imperial Cargo Complex (ICC) at 5721 W. Imperial Highway. The cargo facility is comprised of 83,500 square feet (SF) of cargo warehouse, 15,000 SF of aircraft paving, 39,491 SF of auto paving, and 129,491 SF of land.

The proposed 30-month lease is for occupancy of an air cargo handling facility and preservation of air cargo services that Lufthansa has been operating at LAX since 1985. Its existing airline clients include Austrian Airlines, Saudia Airlines, China Southern Airlines, and Air Canada. Lufthansa's current lease expired on December 19, 2020 and the company is occupying the premises and performing its cargo operations on a month-to-month holdover lease. The proposed replacement lease will expire on October 31, 2024.

The ICC is comprised of eight cargo companies and it generates a combined total of \$13.5 million per year in rental income. However, LAWA has implemented a strategy to allow six of its cargo leases to expire, to closely align the expiration dates with two other cargo companies (Mercury Air Cargo, Inc. and United Airlines, Inc.) that operate within the ICC. The respective term expiration dates for Mercury Air Cargo, Inc. and United Airlines, Inc. are July 31, 2024 and October 30, 2024. Although LAWA permitted the six leases to expire, each tenant is retained in holdover month-to-month lease agreements to ensure cargo operations are sustained and a synchronized expiration date of October 31, 2024 is programmed to maintain consistency and avoid overlapping expiring lease terms. This approach allows LAWA to explore various future planning and development options at the ICC without interruption or long-term lease obligations.

LAWA is in the initial stages of Cargo Planning at LAX, but a comprehensive plan has yet to be developed. Given that LAWA plans to simultaneously restore six expired cargo leases in the ICC with short-term leases, greater flexibility for future planning is broadened as barriers are minimized because no contractual obligations or existing lease agreements would serve as obstacles to negatively impact forthcoming projects at the ICC.

As a result of a \$3.13 per square foot per year (PSFPY) increase in the building rental rate, the proposed lease will generate approximately \$2.9 million in revenue for LAWA in the first year and approximately \$6.8 million over the 30-month term, excluding the automatic annual rental rate adjustments. The building rental rate increase became effective on December 20, 2020, the day after the expiration of the prior lease, resulting in a one-time retroactive payment by Lufthansa of \$376,644, which covers the holdover period from December 2020 to May 1, 2022.

The below chart summarizes the annual rent that LAWA expects to receive from Lufthansa for the leased premises during the first year of the lease term:

Billing Term	Monthly Rate	First Year Income
May 1, 2022 – June 30, 2022	\$205,875	\$411,750
July 1, 2022 – April 30, 2023	\$212,051	\$2,120,511
Retroactive Rent Payment		\$376,644
	Total	2,908,904

The BOAC approved the proposed replacement lease with Lufthansa Cargo Aktiengesellschaft, a German Corporation at its meeting on April 14, 2022. Actions taken on this item by the BOAC will become final pursuant to the provisions of Los Angeles City Charter Section 606.

FISCAL IMPACT STATEMENT

Approval of the proposed 30-month lease to Lufthansa Cargo Aktiengesellschaft, a German Corporation for an air cargo handling facility at Los Angeles International Airport's Imperial Cargo Complex, to carry out air cargo services will have no impact on the City's General Fund. This item complies with LAWA's adopted Financial Policies.