



## CITY OF HOUSTON - CITY COUNCIL

Meeting Date:

District E

Item Creation Date: 5/3/2021

HAS - Ground Lease Agreement for an Aerospace Industry and Technology Facility at Houston Spaceport at Ellington Airport (EFD) with Hamilton Sundstrand Corporation

Agenda Item#:

### **Background:**

### **RECOMMENDATION:**

Enact an ordinance appropriating \$25,600,000.00 from the Airport System Consolidated 2011 AMT Construction Fund (8205) and approving and authorizing a Ground Lease Agreement between Hamilton Sundstrand Corporation and the City of Houston through the Houston Airport System for an Aerospace Industry and Technology Facility Development Project at Houston Spaceport at Ellington Airport (EFD).

### **SPECIFIC EXPLANATION:**

On January 21, 2021, the City entered into a non-binding Memorandum of Understanding (MOU) with Hamilton Sundstrand Corporation (Hamilton) related to exploring the possibility of a development at Houston Spaceport in order to facilitate its aerospace operations including relationships with other aerospace entities, including NASA. The City procured and completed construction of infrastructure improvements on 153 acres of Houston Spaceport to facilitate development and occupancy by aerospace companies to stimulate and grow aerospace development in the region. Hamilton subsequently decided to move forward with its project by entering into a ground lease agreement (Lease) with the City wherein Hamilton will design and construct a facility on approximately 8.369 acres of land. The facility will also include accelerator space to be subleased to an organization that will bring Houston's entrepreneurial, corporate and academic communities together in collaborative space and programs to accelerate innovation and opportunities in the aerospace field tackling aerospace-related challenges, including robotics, medicine, health support systems and additive manufacturing. As an anchor tenant of Houston Spaceport, up to \$25.6 Million of capital improvements will be reimbursed by the Houston Airport System (HAS) and charged back to Hamilton under a cost-recovery methodology.

The pertinent terms of this Lease are as follows:

- 1. Leased Premises and Project Scope:** Hamilton will lease approximately 8.369 acres at Houston Spaceport, along Atlantis Shuttle Street, and undertake planning and design. Hamilton will construct approximately 116,000 square feet of space for office space and manufacturing laboratory space, including 10,000 square feet of accelerator space for sublease, though Hamilton will not charge rent for such accelerator space. The lease will be on a triple-net basis, however, once the City takes title to the improvements, and after Hamilton conducts normal preventive maintenance obligations, any end-of-life replacement of HVAC, roof or structure will be undertaken by the City.
- 2. Option Tract:** Hamilton shall have a right of first refusal, within three years from countersignature of the Lease, to lease an option tract of approximately 8 acres, for further capital improvement. Ground rent shall be established by independent appraisal on such option tract, if exercised, which rate shall escalate 15% every five years thereafter throughout the term of the lease.
- 3. Rentals and Reimbursement:** In exchange for tenant improvements vesting in the City on a brick-by-brick basis, eligible capital costs, supported by proper documentation, shall be reimbursed to Hamilton on a monthly basis, subject to appropriation of funds, and a rental rate methodology has been established to achieve cost recovery. Initially, during planning, design and construction, Hamilton shall be charged a due diligence rate of \$100.00 per month. After construction and upon an initial certificate of occupancy, Hamilton shall pay rent in lease year one equivalent to 5% of the total reimbursed project costs to date, not to exceed \$25.6 Million. Future lease year rentals based on the then-current total reimbursed project costs would escalate 2.5% annually throughout the initial term. Beginning with the option period, Hamilton shall pay rates for land plus improvements in accordance with current HAS independent appraisal methodologies, and subject to the terms stated in the lease, and escalated 15% every five years thereafter throughout the remainder of the lease term or upon new appraised rates.
- 4. Term:** Hamilton shall have an initial 10-year lease term, along with the right to exercise up to three additional five-year option periods.
- 5. Other:** An MWBE goal has been established at 24% for design and 30% for construction of the project in coordination with the Office of Business Opportunity. Hamilton shall provide insurance in accordance with the terms stated in the Lease.

### **Fiscal Note:**

No significant Fiscal Operating impact is anticipated as a result of this project.

**Director's Signature:**

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MW

DocuSigned by:

Mario Diaz

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Mario C. Diaz  
Houston Airport System

DocuSigned by:

Andy Fokan

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Andy Fokan  
Chief Development Officer

**Amount of Funding:**

\$25,600,000.00

HAS-Consolidated 2011 AMT Construction Fund  
Fund 8205

**Contact Information:**

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