

Report to Council



Date: June 19, 2023
To: Council
From: City Manager
Subject: Regency Aero Lease Inc. – Leases and Sublease Amendments
Department: Kelowna International Airport and Real Estate

Recommendation:

THAT Council receives for information the report from Kelowna International Airport and Real Estate dated June 19, 2023, with respect to the amendment of the Aircraft Maintenance Facility Lease, Parking Lot Lease, and Main Hangar Sublease with Regency Aero Lease Inc.;

AND THAT Council approves the amendment to the Aircraft Maintenance Facility Lease with Regency Aero Lease Inc. attached as Appendix A to the report of the Kelowna International Airport and Real Estate dated June 19, 2023;

AND THAT Council approves the amendment to the Parking Lot Lease with Regency Aero Lease Inc. attached as Appendix B to the report of the Kelowna International Airport and Real Estate dated June 19, 2023;

AND THAT Council approves the amendment to the Main Hangar Sublease with Regency Aero Lease Inc. attached as Appendix C to the report of the Kelowna International Airport and Real Estate dated June 19, 2023;

AND THAT the 2023 Financial Plan be amended to include \$22,585.94 in annual revenue associated with amendments to the Aircraft Maintenance Facility Lease, Parking Lot Lease, and Main Hangar Sublease with Regency Aero Lease Inc.;

AND FURTHER THAT the Real Estate Department Manager be authorized to execute all documents necessary to complete and maintain this transaction.

Purpose:

To obtain Council's approval to amend the Aircraft Maintenance Facility Lease, Parking Lot Lease, and Main Hangar Sublease with Regency Aero Lease Inc.

Background:

KF Aerospace (KF Aero) is Canada's largest commercial aircraft maintenance, repair, and overhaul company with its headquarters in the City of Kelowna (the City) and additional facilities in Hamilton, ON, Portage La Prairie, MB, and Vancouver, BC. KF Aero is also the largest private employer in Kelowna with over 1,000 employees.

KF Aero group of companies which includes Regency Aero Lease Inc. has been a tenant at Kelowna International Airport (the Airport) since 1981 and leases City-owned land and subleases lands that the City leases from His Majesty the King in Right of Canada as represented by the Minister of Transport. The current lease and sublease area is more than 31 acres.

Discussion:

Aircraft Maintenance Facility Lease

KF Aero has requested additional space for aircraft parking due to the expansion of its existing facilities encroaching into previous aircraft parking areas. The proposed area is 13,454.89 square feet and is conveniently located adjacent to the Airport's tugway and is near KF Aero's Aircraft Maintenance Facility building shown as Schedule A in the attached Appendix A.

KF Aero is returning 7,760.78 square feet of land currently leased under the Main Hangar Sublease to the City.

Accordingly, KF Aero will continue to pay the same rate per square foot for the 7,760.78 square feet of land now being leased under the Aircraft Maintenance Facility Lease and fair market value for the balance of the land (5,694.11, square feet).

A third-party land lease rental valuation was commissioned to determine the market value of the lands and was used to calculate the corresponding rent as outlined below.

Lease Component	Description
Tenure Type	Land lease for the purpose of aircraft parking.
Land Lease Area	13,454.89 square feet.
Term	6 years, 7 months and 29 days commencing on May 1, 2023.
Renewal Consideration	No option to renew.
Rent	\$6,818.21, per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982)
Airport Maintenance Charge	\$458.13 per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982).
Lease Costs	Tenant to pay all costs.
Site Condition on Expiry	Land, structures, and any improvements revert to the City upon expiry.

Parking Lot Lease

In May 2022, KF Aero returned 14,638.92 square feet of leased lands under the Parking Lot Lease to the City shown as Schedule A in the attached Appendix B, so the City could move forward with constructing a childcare facility. This facility is a partnership with the YMCA, the City and KF Aero and will provide 86 childcare spaces when the facility is opened.

In exchange for this returned land, KF Aero made a request to lease 29,708.39 square feet of land to store vehicles and equipment. This land is located adjacent to the Parking Lot Lease lands as shown in Schedule A attached as Appendix C.

KF Aero will continue to pay the same rent for 14,638.92 square feet of land as it did for the land that it returned. For the additional 15,069.47 square feet of land, a third-party land lease rental valuation was commissioned to determine the market value of the lands. The corresponding rent has been outlined below.

Lease Component	Description
Tenure Type	Land lease for the purpose of storing vehicles and equipment.
Land Lease Area	29,708.39 square feet.
Term	6 years, 7 months and 29 days commencing on May 1, 2023
Renewal Consideration	No option to renew.
Rent	\$16,540.50 per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982).
Airport Maintenance Charge	\$1,011.57 per annum (increasing at 2% per annum as per Airport Fees Bylaw 7982).
Lease Costs	Tenant to pay all costs.
Site Condition on Expiry	Land, structures, and any improvements revert to the City upon expiry.

Main Hangar Sublease

To accommodate the future development of the Airport's Combined Operations Building, an area of 7,760.78 square feet which is currently subleased to KF Aero, as shown in Appendix C will be returned to the City of Kelowna.

KF Aero has agreed to surrender the lands in exchange for entering into the Amendment to the Aircraft Maintenance Facility, repayment of \$15,004.61 of paving costs, and the reconfiguration of an HVAC unit at a cost of \$3,975.30.

The loss of rental revenue for this area is \$1,978.22 and loss of Airport Maintenance Charge for this area is \$264.25 per annum.

Conclusion:

The Airport and Real Estate recommend that Council receive this report and approve the amendments to the Aircraft Maintenance Facility Lease, Parking Lot Lease, and Main Hangar Sublease with Regency Aero Lease Inc.

Internal Circulation:

Financial Services
Communications

Considerations applicable to this report:

Legal/Statutory Authority:

Notice of disposition of City-owned land will be published pursuant to Section 26 of the *Community Charter*.

Financial/Budgetary Considerations:

Rent will be paid at an annual rate of \$21,380.49, increasing at 2% per annum. The Airport Maintenance Charge will be paid at an annual rate of \$1,205.45 increasing at 2% per annum. If approved, the revenue associated with the Aircraft Maintenance Facility lease, Parking Lot lease, and Main Hangar sublease will be incorporated in the 2023 Financial Plan.

Considerations not applicable to this report:

Legal/Statutory Procedural Requirements:

Existing Policy:

External Agency/Public Comments:

Communications Comments:

Submitted by:

S. Dyrdal, Senior Airport Finance and Corporate Services Manager

Approved for inclusion:

S.S.

S. Samaddar, Airport Director

cc:

T. McQueenie, Airport Corporate Services Manager

M. Friesen, Acting Controller

G. Hood, Strategic Land Development Manager

C. Brannagan, Communications Advisor

Attachments:

Appendix A – Amendment to the Aircraft Maintenance Facility Lease

Appendix B – Amendment to the Parking Lot Lease

Appendix C – Amendment to the Main Hangar Sublease