

GILLESPIE FIELD DEVELOPMENT COUNCIL

Wednesday, January 17, 2024

AGENDA ITEM # 9

FIFTH AMENDMENT TO INDUSTRIAL LEASE WITH VERIDIAM, INC.



BACKGROUND

Veridiam, Inc. ("Veridiam"), formerly known as Carpenter Special Products Corporation, is one of the largest manufacturers of precision-engineered tubular parts and assemblies for a variety of industries. On June 22, 2005 (11), the Board of Supervisors approved the new ground lease with Veridiam (current County Contract No. 117011). The 35-year lease commenced on May 1, 2004, and has since been amended four times. The lease has a 20-year extension option and will terminate on April 30, 2059, if that extension option is exercised by the lessee. Veridiam currently leases approximately 6.42 net acres, located between Cuyamaca Street and Marshall Avenue.

Veridiam occupies airport-owned land that has been released by the FAA for non-aeronautical use. Such releases are only possible for land that is not suitable for aeronautical use and when the land is not needed to meet aviation forecasts. The land occupied by Veridiam is separated from Gillespie Field airport operations area by a flood control channel and Marshall Avenue. Federal law requires that the County receive market rent for non-aeronautical use of the land and that the revenue must be used for the operation and maintenance of the County-owned airports.

As is standard for County leases, the Veridiam lease provides for periodic rental adjustments. Renegotiations of the Base Monthly Rental rate are scheduled for every five years of the lease term. The upcoming renegotiated adjustment is due to take effect on May 1, 2024.

Veridiam currently pays \$39,251 per month for its 6.42-acre parcel. An independent appraiser, commissioned by County last year to determine market rent for the neighboring industrial lot, estimated the fair market rate at \$7,773 per acre per month. Applying that rate to Veridiam’s parcel would produce a monthly rent of \$49,903, which is approximately \$10,652 or 27.14% more that Veridiam is paying now. During the negotiations, Veridiam asserted that such a steep rental increase would cause hardship for the company that is still recovering from impacts of the recent pandemic. County and Veridiam have negotiated a lease amendment that would increase Veridiam’s rent to market incrementally, by about 5% per year.

PROPOSED FIFTH AMENDMENT TO INDUSTRIAL LEASE WITH VERIDIAM, INC.

The proposed amendment increases Veridiam’s rent incrementally over the next five-year period, starting on May 1, 2024, in accordance with the following schedule:

Effective Date	Base Monthly Rent	Difference	Percentage Increase
5/1/2024	\$41,214	\$1,963	5%
5/1/2025	\$43,274	\$2,060	5%
5/1/2026	\$45,438	\$2,164	5%
5/1/2027	\$47,710	\$2,272	5%
5/1/2028	\$50,095	\$2,385	5%

Periodic adjustments upon rental rate renegotiations are contemplated in the Veridiam lease. Since this lease amendment is administrative in nature, all other terms of the lease would remain unchanged, and no other lease provisions are being added or modified. The lease amendment is not subject to the Working Families Ordinance, since there are no capital improvement projects being proposed or discretionary changes being made to the lease. The next renegotiated rate adjustment would be due on May 1, 2029. Starting on May 1, 2030, the rent would be subject to annual Cost of Living Adjustments, based on changes in the Consumer Price Index, and to periodic rental rate renegotiations, as set forth in the lease. All other terms of the lease will remain the same.

RECOMMENDED MOTION

“Gillespie Field Development Council recommends the Board of Supervisors approve the proposed Fifth Amendment to Industrial Lease with Veridiam, Inc., as recommended by staff.”