

AIRPORT COMMISSION  
CITY AND COUNTY OF SAN FRANCISCO  
RESOLUTION NO. **5-0138**

**APPROVAL OF AMENDMENT NO. 6 TO THE INTERNATIONAL TERMINAL DUTY FREE AND LUXURY STORES LEASE NO. 17-0303 WITH DFS GROUP, L.P.**

- WHEREAS, on December 5, 2017, by Resolution No. 17-0303, the Airport Commission (Commission) awarded the International Terminal Duty Free and Luxury Stores Lease No. 17-0303 (Lease) to DFS Group, L.P. (Tenant) to operate duty free and luxury stores in the International Terminal and Harvey Milk Terminal 1 for a term of 14 years expiring March 31, 2034; and
- WHEREAS, Tenant consists of a joint venture partnership between DFS Group L.P., with 75% ownership, and the following five ACDBE partners, each with 5% ownership: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, Inc., and Skyview Concessions, Inc.; and
- WHEREAS, on March 17, 2020, by Resolution No. 20-0051, the Commission approved Amendment No. 1 to the Lease to temporarily reduce the Base Rent to a Percentage Rent Structure equal to 33% of gross revenues for Lease Year 1, which ended December 31, 2020; and
- WHEREAS, on October 6, 2020, by Resolution No. 20-0180, the Commission approved amending the Lease as part of the overall COVID-19 Emergency Rent Relief Program which provided minimum annual guarantee (MAG) rent relief for most concession tenants for April and May 2020, which after being ultimately approved by the Board of Supervisors, was memorialized in Amendment No. 3 to the Lease after the Commission approved Amendment No. 2 to the Lease (as set forth below); and
- WHEREAS, on December 1, 2020, by Resolution No. 20-0222, the Commission approved Amendment No. 2 to the Lease, which continued the temporary modification of the Percentage Rent structure through the earlier to occur of Lease Year 4 (calendar Year 2023), or the reinstatement of the MAG upon a stabilization of enplanements; and
- WHEREAS, on October 17, 2023, by Resolution No. 23-0256, the Commission approved Amendment No. 4 to the Lease, providing for the temporary reduction in Percentage Rent and the MAG for Lease Years 5, 6, and 7, which are also calendar years 2024, 2025, and 2026; and

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WHEREAS, on May 21, 2024, by Resolution No. 24-0110, the Commission approved Amendment No. 5 to the Lease, establishing Percentage Rent at 33% for Calendar Year 2023, notwithstanding reinstatement of the MAG; Amendment No. 5 also made the rent relief contingent upon Tenant opening a store in Harvey Milk Terminal 1 by December 31, 2024 and a store in Terminal 2 by March 31, 2025, both of which requirements were met; and

WHEREAS, duty-free sales have not recovered primarily due to the changing demographic of the international passenger. Prior to the pandemic, Chinese passengers were 15% of total international passengers yet accounted for nearly 50% of all duty-free sales activity. In 2024, Chinese travelers represented less than 5% of total international passenger enplanements; and

WHEREAS, Tenant and its joint venture partners continue to suffer financial losses each year despite the most recent rent reduction program; and

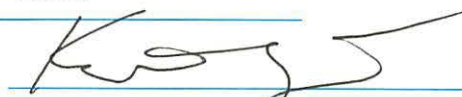
WHEREAS, duty-free stores are an important part of the concessions offer and a significant revenue generator, and preserving service by improving the financial viability of the duty-free lease through further rent relief is in the best interests of the Airport; now, therefore, be it

RESOLVED, that this Commission hereby approves Amendment No. 6 to the Lease, which provides for a temporary reduction in Percentage Rent to 28% of Gross Revenues up to \$100,000,000 and 32% for Gross Revenues above \$100,000,000, for Lease Years 7, 8, 9, and 10 (calendar years 2026 through 2029), and a temporary reduction in the MAG for the same period by establishing the MAG as \$25,000,000 for Year 7 (calendar year 2026), with annual adjustments as specified in the Lease; and, be it further

RESOLVED, at the commencement of Lease Year 11 (calendar year 2030), the Original Base Rent Structure (including the payment of the original Minimum Annual Guarantee, as adjusted from Lease Year 1 (calendar year 2020)) will be restored; and, be it further

RESOLVED, that this Commission hereby directs the Director of Commission Affairs to request approval of Amendment No. 6 from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission  
= AUG 19 2025  
at its meeting of \_\_\_\_\_

  
Secretary

**MEMORANDUM**

August 19, 2025

TO: AIRPORT COMMISSION  
Hon. Malcolm Yeung, President  
Hon. Jane Natoli, Vice President  
Hon. Jose F. Almanza  
Hon. Mark Buell  
Hon. Susan Leal

15-0138

AUG 19 2025

FROM: Airport Director

SUBJECT: Approval of Amendment No. 6 to the International Terminal Duty Free and Luxury Stores Lease No. 17-0303 with DFS Group, L.P.

DIRECTOR'S RECOMMENDATION: (1) APPROVE AMENDMENT NO. 6 TO THE INTERNATIONAL TERMINAL DUTY FREE AND LUXURY STORES LEASE NO. 17-0303 WITH DFS GROUP, L.P., TEMPORARILY REDUCING PERCENTAGE RENT AND MINIMUM ANNUAL GUARANTEE RENT FOR 2026 THROUGH 2029, AND (2) DIRECT THE DIRECTOR OF COMMISSION AFFAIRS TO REQUEST APPROVAL OF AMENDMENT NO. 6 FROM THE BOARD OF SUPERVISORS PURSUANT TO SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

**Executive Summary**

DFS Group, L.P. (Tenant) commenced operations on April 1, 2020 under International Terminal Duty Free and Luxury Store Lease No. 17-0303 (Lease). At the time of Lease award, gross sales were projected at \$124,832,000 for the first fiscal year of the Lease, growing to \$185,774,000 by the fifth fiscal year. Actual gross sales for the first full fiscal year of the Lease were \$27,924,000 and \$93,900,000 for the fifth fiscal year, which just ended. Tenant has received rent relief from the commencement of the Lease through multiple amendments to the Lease, for the reasons stated below. Staff is recommending providing additional rent relief starting January 1, 2026, for a period of four years.

**Background**

On December 5, 2017, by Resolution No. 17-0303, the Airport Commission (Commission) awarded the Lease to Tenant with a Base Term of 14 years. Tenant operates the Lease through a joint venture partnership named SFO Duty Free & Luxury Store Joint Venture, made up of itself with 75% ownership and the following five small business partners, each with 5% ownership: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, Inc., and Skyview

THIS PRINT COVERS CALENDAR ITEM NO. 10

Concessions, Inc. Each of the small business partners is a certified Airport Concessions Disadvantaged Business Enterprise (ACDBE).

On March 17, 2020, by Resolution No. 20-0051, the Commission approved Amendment No. 1 to the Lease, which provided for a temporary suspension of the Minimum Annual Guarantee (MAG) Rent and a temporary reduction in the Percentage Rent structure to equal 33% of gross revenue through December 31, 2020, necessitated by the following unanticipated factors in the time period leading up to the commencement of the Lease of April 1, 2020: (i) the severe reduction in international flights related to the COVID-19 pandemic, (ii) global economic issues impacting the value of the Chinese currency, and (iii) a dramatic decrease in the spending patterns of the average Chinese traveler.

On October 6, 2020, by Resolution No. 20-0180, the Commission authorized the COVID-19 Emergency Rent Relief Program which provided MAG rent relief to most Airport concession tenants for April and May 2020, which after approval by the Board of Supervisors, was memorialized in Amendment No. 3 to the Lease after the Commission approved Amendment No. 2 (as set forth below).

On December 1, 2020, by Resolution No. 20-0222, the Commission approved Amendment No. 2 to the Lease, which continued the temporary modification of the Percentage Rent structure due to the prolonged recovery from the pandemic. This modified the Percentage Rent from January 1, 2020, through the earlier to occur of December 31, 2023, or the reinstatement of the MAG.

On October 17, 2023, by Resolution No. 23-0256, the Commission approved Amendment No. 4 to the Lease, providing for the temporary reduction in Percentage Rent and the MAG for Lease Years 5, 6, and 7, which are also calendar years 2024, 2025, and 2026.

On May 21, 2024, by Resolution No. 24-0110, the Commission approved Amendment No. 5 to the Lease, which established Percentage Rent at 33% for all of calendar Year 2023, notwithstanding the reinstatement of the MAG. Amendment No. 5 also made the rent relief contingent upon opening a store in Harvey Milk Terminal 1 by December 31, 2024 and a store in Terminal 2 by March 31, 2025. Both requirements were met.

Duty-free sales continue to perform far below what was forecast when the Lease was entered into in 2017. Travelers from the Peoples Republic of China spent \$48,000,000 on duty free merchandise at the Airport in 2019 and only \$21,000,000 last year. While international enplanements have surpassed pre-pandemic levels, they are a different demographic mix, and that the current duty-free shopper does not spend in the same way. Despite the rent relief approved in Amendment No. 4, DFS' quarterly joint venture financial documents indicate losses averaging more than \$10,000,000 annually for last year and this year, and forecast more losses for next year. DFS and its ACDBE partners entered that rent relief program with accumulated losses estimated at \$60,000,000.

**Proposal**

Staff recommends approving Amendment No. 6 which provides a temporary reduction in Percentage Rent to 28% of Gross Revenues up to \$100,000,000 and 32% for Gross Revenues above \$100,000,000, for Lease Years 7, 8, 9, and 10, which are also calendar years 2026 through 2029. Staff also recommends temporarily reducing the MAG for the same period by establishing a \$25,000,000 MAG for Lease Year 7 (calendar year 2026), with an annual adjustment as provided for in the Lease.

At the commencement of Lease Year 11 (calendar year 2030), the Original Base Rent Structure (including the payment of the original Minimum Annual Guarantee, as adjusted from Lease Year 1 (calendar year 2020)) will be restored.

**Recommendation**

I recommend the Commission adopt the accompanying Resolution: (1) approving Amendment No. 6 to the International Terminal Duty Free and Luxury Stores Lease No. 17-0303, which provides for a temporary reduction in Percentage Rent to 28% of Gross Revenues up to \$100,000,000 and 32% for Gross Revenues above \$100,000,000, for Lease Years 7, 8, 9, and 10 (calendar years 2026 through 2029), and a temporary reduction in the MAG for the same period by establishing the MAG as \$25,000,000 for Year 7 (calendar year 2026), with annual adjustments as specified in the Lease; and (2) directing the Director of Commission Affairs to request approval of Amendment No. 6 from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

Sincerely,



Mike Nakornkhet  
Airport Director

Prepared by: Kevin Bumen  
Chief Financial and Commercial Officer

Attachments

## Attachment 1

International Terminal Duty Free and Luxury Stores Lease No. 17-0303

