



San Francisco International Airport

MEMORANDUM

March 18, 2014

TO: AIRPORT COMMISSION
Hon. Larry Mazzola, President
Hon. Linda S. Crayton, Vice President
Hon. Eleanor Johns
Hon. Richard J. Guggenhime
Hon. Peter A. Stern

FROM: Airport Director

SUBJECT: Modification No. 1 to the 2011 Lease and Use Agreement No. L10-0097 between United Airlines, Inc. and the San Francisco International Airport

DIRECTOR'S RECOMMENDATION: APPROVE MODIFICATION NO. 1 TO THE 2011 LEASE AND USE AGREEMENT NO. L10-0097, BETWEEN UNITED AIRLINES, INC. AND THE SAN FRANCISCO INTERNATIONAL AIRPORT, TO INCREASE THE DEMISED PREMISES.

Executive Summary

Pursuant to the United Airlines, Inc. ("United") 2011 Lease and Use Agreement No. L10-0097 (the "Agreement"), United occupies approximately 393,150 square feet of Exclusive Use Space in Terminal 3 ("T3") and the International Terminal ("IT"). Modification No. 1 will modify the Exclusive Use Space to reflect the net addition of approximately 92,331 square feet of Exclusive Use Space in T3 and Boarding Areas "E" and "F" (the "Modification") due to the completion of the Boarding Area "E" Refurbishment Project and the Terminal 3 Checkpoint Improvement Project (collectively, the "T3 Projects"), as well as the development of a Services Operations Center ("SOC") in Boarding Area "F".

The effective date of the Modification will be the first day of the month following full City approval. The modified Demised Premises will be comprised of approximately 485,481 square feet of Categories I-V Exclusive Use Space and will generate approximately \$10,745,068 of incremental terminal rent annually.

Background

On March 16, 2010 and May 11, 2010, pursuant to Airport Commission Resolution No. 10-0097 and Board of Supervisors Resolution No. 208-10, respectively, United became a signatory to the Agreement effective July 1, 2011. The Agreement has a term of ten (10) years and generated

THIS PRINT COVERS CALENDAR ITEM NO. 9

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

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VICE PRESIDENT

ELEANOR JOHNS

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JOHN L. MARTIN
AIRPORT DIRECTOR

\$112,466,406 in terminal rental and landing fees in fiscal year 12/13. The Demised Premises is comprised of approximately 393,150 square feet of Exclusive Use Space in T3 and the IT plus certain Preferential Use Space and Joint Use Space.

The Airport has undertaken various capital projects, including the T3 Projects, which reconfigured portions of T3 and refurbished the entirety of Boarding Area "E" ("BAE"), including portions of United's Exclusive Use Space under the Agreement. With the completion of substantive portions of the T3 Projects and the recent opening of the newly refurbished BAE on January 28, 2014, United wishes to occupy a net addition of approximately 92,331 square feet of Categories I-IV Exclusive Use Space pursuant to the Modification, which reflects both the reconfigured space related to the T3 Projects and space which it currently occupies under Airline Terminal Space or Use Permits Nos. P4140 and P4283. The aforementioned square footage also includes approximately 7,547 square feet of Category II space on the Boarding Area "F" ("BAF") Annex level for the development of a SOC.

The incremental space will generate additional terminal rent of approximately \$10,745,068 annually. The proposed Modification will be effective on the first day of the month following full City approval. In the interim, United will occupy the majority of the incremental space pursuant to Airline Space or Use Permit No. P4283 (the "Permit").

Due to the ongoing nature of the T3 Projects, two areas of construction will not be completed on the effective date of the Modification, including a new VIP Club and certain baggage carousels. The Modification will provide for the future addition of these spaces to the Demised Premises, upon their completion, without further formal modification.

The new VIP Club, comprised of approximately 6,137 square feet, will be located near the entrance of BAE and is targeted for completion on or about the spring of 2015. To bridge the fifteen-month gap between the opening of BAE and completion of the permanent VIP Club, the Airport is constructing an interim club on the mezzanine level of T3 comprised of approximately 5,748 square feet. The Modification will include the square footage for the interim club, provide for United's surrender of the interim club, and the taking of the permanent VIP Club upon its completion. Terminal rent for the permanent VIP Club will commence on the date it opens to the public with a corresponding cessation of rent for the interim club.

Four (4) baggage carousels, Carousel 10, 11, 14 and 15, comprised of approximately 13,862 square feet of Category II space, are undergoing refurbishment. The carousels are targeted for completion on or about August of 2014. United wishes to add Carousels 10, 11 and 14 comprised of 11,129 square feet, to the Demised Premises immediately thereafter with a commensurate commencement of rent. The parties acknowledge that, due to operational growth, Carousel 15 may also be required by United. Upon mutual agreement of the parties, the Demised Premises may be modified by the addition of Carousel 15 comprised of approximately 2,733 square feet.

Proposal

Pursuant to the Modification, to be effective on the first day of the month following full City approval, the Demised Premises will be increased by the net addition of approximately 92,331 square feet of Exclusive Use Space to reflect the T3 Projects and SOC development. The net result of these space changes is summarized below:

Category	Current Square Footage	Square Footage from Effective Date	Net Square Footage Changes
I	6,213	6,325	112
II	93,851	125,761*	31,910
III	79,009	96,329	17,320
IV	190,670	233,659	42,989
V	23,407	23,407	-0-
		TOTAL	92,331

* Includes: 1) the interim club on Mezzanine Level of Terminal 3 (Room T3.3.011) comprised of approximately 5,748 square feet, and 2) Baggage Carousels 10,11 and 14 comprised of approximately 11,129 square feet.

Recommendation

I recommend adoption of the attached Resolution that approves Agreement Modification No. 1 to the 2011 Lease and Use Agreement No. L10-0097 with United Airlines, Inc. to increase the Demised Premises, specifically to add approximately 92,331 square feet of Exclusive Use Space in Terminal 3, BAE and BAF, and directs the Commission Secretary to forward Agreement Modification No. 1 to the Board of Supervisors for approval, in accordance with City Charter Section 9.118.



John L. Martin
Airport Director

Prepared by: Leo Fermin
Chief Business and Finance Officer

Attachment

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 14 0052

APPROVAL OF MODIFICATION NO. 1 TO THE 2011 LEASE AND USE AGREEMENT
NO. L10-0097, BETWEEN UNITED AIRLINES, INC. AND THE SAN FRANCISCO
INTERNATIONAL AIRPORT, TO INCREASE THE DEMISED PREMISES.

WHEREAS, on March 16, 2010 and May 11, 2010, pursuant to Airport Commission Resolution No. 10-0097 and Board of Supervisors' Resolution No. 208-10, respectively, United Airlines, Inc. ("**United**") became a signatory to the 2011 Lease and Use Agreement No. L10-0097 (the "**Agreement**") effective July 1, 2011; and

WHEREAS, the Agreement has a term of ten (10) years and expires on June 30, 2021; and

WHEREAS, the Demised Premises is comprised of approximately 393,150 square feet of Exclusive Use Space in Terminal 3 and the International Terminal, plus certain Preferential Use Space and Joint Use Space; and

WHEREAS, the Airport is completing the Boarding Area "E" Refurbishment Project and the Terminal 3 Checkpoint Improvement Project (collectively, the "**T3 Projects**"), which reconfigures areas of Terminal 3 and Boarding Area "E", including portions of United's Exclusive Use Space under the Agreement; and

WHEREAS, United wishes to occupy a net additional 92,331 square feet of Exclusive Use Space in T3 and Boarding Areas "E" and "F", pursuant to Modification No. 1 to the Agreement (the "**Modification**"); and

WHEREAS, pursuant to the Modification, United also wishes to incorporate certain Category I-IV spaces, located in T3 and Boarding Areas "E" and "F", which it currently occupies under Airline Terminal Space or Use Permit Nos. P4140 and P4283; and

WHEREAS, United also wishes to develop a Services Operations Center on the Annex level of Boarding Area "F" comprised of approximately 7,547 square feet of Category II space; and

WHEREAS, due to the ongoing nature of the T3 Projects, two areas of construction will not be completed upon the effective date of the Modification, including a new VIP Club and certain baggage carousels; and

WHEREAS, the Modification provides for the future addition of these spaces to the Demised Premises, upon their completion, without further formal modification; and

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 14 0052

WHEREAS, the effective date of the Modification will be the first day of the month following full City approval; now, therefore, be it

RESOLVED, that this Commission hereby approves and authorizes the Director to execute Modification No. 1 to the 2011 Lease and Use Agreement No. L10-0097, between United Airlines, Inc. and the San Francisco International Airport, to modify the Demised Premises by the net addition of approximately 92,331 square feet of Exclusive Use Space in Terminal 3 and Boarding Areas "E" and "F", to be effective on the first day of the month following full City approval; and, be it further

RESOLVED, that this Commission hereby approves the future taking of the new VIP Club and baggage carousels, upon their respective completion dates, without further formal modification to the Agreement; and, be it further

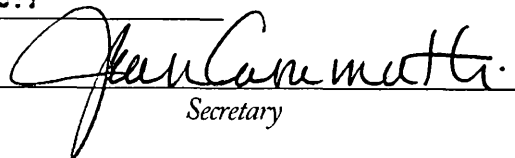
RESOLVED, that the Commission Secretary is hereby directed to request approval of Modification No. 1 of the Agreement by resolution of the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

I hereby certify that the foregoing resolution was adopted by the Airport Commission

at its meeting of _____

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Secretary