



MEMORANDUM

March 21, 2023

TO: AIRPORT COMMISSION
Hon. Eleanor Johns, President
Hon. Malcolm Yeung, Vice President
Hon. Everett A. Hewlett, Jr.
Hon. Jane Natoli
Hon. Jose F. Almanza

23-0080

MAR 21 2023

FROM: Airport Director

SUBJECT: Approval of Amendment No. 3 to International Terminal Food and Beverage Lease 3, Lease No. 16-0014 with Tastes on the Fly SFO International, LLC

DIRECTOR'S RECOMMENDATION: (1) APPROVE AMENDMENT NO. 3 TO THE INTERNATIONAL TERMINAL FOOD AND BEVERAGE LEASE 3, LEASE NO. 16-0014 WITH TASTES ON THE FLY SFO INTERNATIONAL, LLC, REMOVING THE SAMOVAR TEA FACILITY FROM THE LEASE PREMISES, LEAVING THE MINIMUM ANNUAL GUARANTEE AS IS, AND REDUCING THE ANNUAL PROMOTIONAL CHARGE FROM \$12,570 TO \$7,157, AND (2) DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL BY THE BOARD OF SUPERVISORS.

Executive Summary

Tastes on the Fly SFO International, LLC (Tenant) currently operates three food and beverage locations in the International Terminal under the International Terminal Food and Beverage Lease 3, Lease No. 16-0014 (Lease). One of the locations, Samovar Tea (Samovar Tea Facility), is located pre-security in the ticketing lobby, has not reopened since the pandemic, and is not financially successful. Separately, a lease for the employee café was awarded in September 2019 but construction was delayed at the start of the pandemic. Staff now believes it more financially advantageous to merge the existing intended employee café space, located on the Terminal 2 mezzanine, with a large adjacent space currently identified for development of an airline lounge. Staff is recommending the permanent closure and recapture of the Samovar Tea Facility to allow for the relocation of the employee café to such space in the International Terminal.

Approval is sought to recapture and remove the Samovar Tea Facility from the premises demised under the Lease, leave Minimum Annual Guarantee unchanged, and decrease the Annual Promotional Charge on a pro-rate basis reflecting the reduced square footage in the Lease. The Annual Promotional Charge is one dollar per square foot of premises per year. It is paid by food and beverage and retail tenants and helps pay for marketing campaigns within the Airport. This approval does not authorize the relocation of the employee café to the International Terminal, as that can be done pursuant to the terms of the lease for the employee café.

THIS PRINT COVERS CALENDAR ITEM NO. 10

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED
MAYOR

ELEANOR JOHNS
PRESIDENT

MALCOLM YEUNG
VICE PRESIDENT

EVERETT A. HEWLETT, JR.

JANE NATOLI

JOSE F. ALMANZA

IVAR C. SATERO
AIRPORT DIRECTOR

Background

On January 19, 2016, by Resolution No. 16-0014, the Commission awarded the Lease to Tastes on the Fly San Francisco, LLC (Original Tenant) with a base term of 12 years and one 3-year option to extend the term for the two post-security locations and a base term of nine years and one 3-year option to extend the term for the Samovar Tea Facility. On July 29, 2016, by Resolution No. 296-16, the Board of Supervisors approved the Lease.

On August 23, 2016, by Resolution No. 16-0229, the Commission approved an assignment of the Lease from Original Tenant to Tenant.

On December 3, 2019, by Resolution No. 19-0312, the Commission approved Amendment No. 1 to the Lease which extended the terms for all three facilities by two years due to construction costs greatly exceeding projections. On October 16, 2020, by Resolution No. 458-20, the Board of Supervisors approved Amendment No. 1 to the Lease.

On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concessions Tenants, which was memorialized in Amendment No. 2 to the Lease.

Under the Lease, Tenant operates the Samovar Tea Facility in a pre-security location in the International Terminal ticketing lobby, and Mustards Grill and Napa Farms Market in Boarding Area G, also in the International Terminal. Samovar Tea generates the lowest sales of any of the already lower performing pre-security locations. The two former restaurants in the same space, Qi and Firewood Café, were not financially successful.

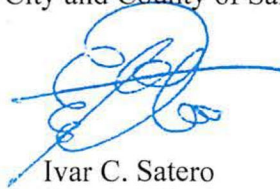
The Airport awarded a lease to a separate entity to build and operate an employee café on the mezzanine in Terminal 2. Construction of the café has yet to begin, and the employee café premises are now desired to be joined with a large contiguous space and leased as an airline lounge. The enlarged airline lounge made possible by the relocation of the employee café to the International Terminal will earn higher rent for the Airport. Staff desires to permanently close the Samovar Tea Facility and use the premises for the employee café. The employee café operator is agreeable to this premises relocation.

Proposal

Staff recommends amending the Lease to recapture and remove the Samovar Tea Facility from the Lease. The promotional charge under the Lease is assessed at \$1.00 per square foot per year. Removing the Samovar Tea Facility from the Lease would cause the Annual Promotion Charge to decrease from \$12,570 to \$7,157. Staff further recommends that the Minimum Annual Guarantee, which ordinarily also adjusts a pro-rata basis when there are adjustments to a lease premises, remain unchanged. Tenant has agreed to the terms of the lease amendment.

Recommendation

I recommend the Commission adopt the accompanying Resolution (1) approving Amendment No. 3 to the International Terminal Food and Beverage Lease 3, Lease No. 16-0014, which recaptures and removes the Samovar Tea Facility from the Lease premises, leaves the Minimum Annual Guarantee unchanged and lowers the Annual Promotional Charge from \$12,570 to \$7,157, and (2) directing the Commission Secretary to forward Amendment No. 3 to the Board of Supervisors for approval pursuant to Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

Prepared by: Kevin Bumen
Chief Financial and Commercial Officer

Attachments

Attachment 1

International Terminal Food and Beverage Lease 3, Lease No. 16-0014

