



MEMORANDUM

June 21, 2022

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

22-0110

JUN 21 2022

FROM: Airport Director

SUBJECT: Approval of Amendment No. 4 to Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232 with World Duty Free Group North America, LLP

DIRECTOR'S RECOMMENDATION: (1) APPROVE AMENDMENT NO. 4 TO TERMINAL 2 NEWSSTANDS, COFFEE AND SPECIALTY STORES LEASE NO. 10-0232 WITH WORLD DUTY FREE GROUP NORTH AMERICA, LLP, AND (2) DIRECT THE COMMISSION SECRETARY TO FORWARD AMENDMENT NO. 4 TO THE BOARD OF SUPERVISORS FOR APPROVAL UNDER SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

Airport staff requests that the Airport Commission (Commission) approve Amendment No. 4 to the Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232 (Lease) with World Duty Free Group North America, LLP (Tenant), which provides for the removal of a portion of the leased premises designated as a coffee café from the Lease.

The coffee café space was formerly subleased to Host International, Inc. and operated as a Starbucks. It closed in March 2020 due to the severe decline in enplanements and concession traffic caused by the onset of the COVID-19 pandemic. The sublease specific to the coffee café space ended with the original expiration date for the Lease of April 30, 2021, without Starbucks ever reopening. The Airport extended the Lease through June 30, 2023; however, Tenant experienced difficulty finding a coffee operator willing to take over the space and make a capital investment for such a short period and in a pre-security location. Staff believes it would be better for the Airport, both operationally and financially, to reclaim the space and issue a request for proposals for a new long-term lease pairing the space with a post-security location to improve financial feasibility.

Amendment No. 4 includes a reduction in the total leasehold square footage from approximately 4,420 square feet to approximately 3,555 square feet, which results in a 20% reduction in leasehold space and a reduction in Minimum Annual Guarantee (MAG) rent from \$1,546,363.72 to \$1,243,738.24.

THIS PRINT COVERS CALENDAR ITEM NO. 5

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 July 6, 2010, by Resolution No. 10-0232, the Commission awarded the Lease to Host International, Inc. (Original Tenant) for a term of ten years. On December 6, 2011, by Resolution No. 11-0296, the Commission approved Amendment No. 1 to the Lease, which modified the definition of Lease Year. On November 20, 2012, by Resolution No. 12-0263A, the Commission approved an assignment of the Lease from Original Tenant to Tenant. On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which was memorialized in Amendment No. 2 to the Lease. On December 15, 2020, by Resolution No. 20-0252, the Commission approved Amendment No. 3 to the Lease to extend the term of the Lease to June 30, 2023.

Under the Lease, Tenant occupies five locations in Terminal 2 totaling approximately 4,420 square feet as follows:


- Space A: 409 square feet post-security (currently SFO News Express)
- Space B: 1,974 square feet post-security (currently Sunset News)
- Space C: 865 square feet pre-security (formerly Starbucks)
- Space D: 563 square feet post-security (currently Kiehl's)
- Space E: 609 square feet post-security (currently M. Fredric)

Proposal

Staff recommends modifying the Lease to remove the former Starbucks location from the demised premises under the Lease, which will result in a 20% reduction in leasehold space and a reduction in MAG from \$1,546,363.72 to \$1,243,738.24. This will enable the Airport to issue a request for proposals for a new tenant to operate a coffee café pre-security in Terminal 2 for a full lease term to serve customers as enplanements increase.

Recommendation

I recommend that this Commission adopt the accompanying resolution approving Amendment No. 4 to the Lease, which removes a portion of the leased premises designated for coffee café use so that the Airport can seek a new tenant under a new lease, and directing the Commission Secretary to forward Amendment No. 4 to the Board of Supervisors for approval under Section 9.118 of the Charter of the City and County of San Francisco. Staff will return to the Commission for approval to issue a request for proposals for this opportunity at a later time.



Ivar C. Satero
Airport Director

Prepared by: Kevin Bumen
Chief Commercial and Acting Financial Officer

Attachments

Attachment
Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232
World Duty Free Group North America, LLP

