

From: [RivamonteMesa, Abigail \(BOS\)](#)
To: [Cathy Widener \(AIR\)](#); [Haney, Matt \(BOS\)](#)
Cc: [Safai, Ahsha \(BOS\)](#); [Mar, Gordon \(BOS\)](#); [Wong, Linda \(BOS\)](#); [Chung, Lauren \(BOS\)](#); [Quan, Daisy \(BOS\)](#); [Dyanna V. Quizon](#); [Campbell, Severin \(BUD\)](#); [Menard, Nicolas \(BOS\)](#); [Holober, Reuben \(BOS\)](#)
Subject: Re: File No. 210068 - Domestic Terminal 3 Common Use Club Lease No. 13-0006 - American Express Travel Related Services Company, Inc.
Date: Thursday, May 13, 2021 2:54:39 PM
Attachments: [image001.png](#)
[image002.png](#)

Thank you, Cathy, for the additional information.

Abigail Rivamonte Mesa, Chief of Staff
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I am working from home due to the COVID-19 Stay Safer at Home Order and will be most responsive via email

From: Cathy Widener (AIR) <Cathy.Widener@flysfo.com>
Sent: Thursday, May 13, 2021 10:44 AM
To: Haney, Matt (BOS) <matt.haney@sfgov.org>
Cc: Safai, Ahsha (BOS) <ahsha.safai@sfgov.org>; Mar, Gordon (BOS) <gordon.mar@sfgov.org>; Wong, Linda (BOS) <linda.wong@sfgov.org>; RivamonteMesa, Abigail (BOS) <abigail.rivamontemesa@sfgov.org>; Chung, Lauren (BOS) <lauren.l.chung@sfgov.org>; Quan, Daisy (BOS) <daisy.quan@sfgov.org>; Dyanna V. Quizon <dvquizon@gmail.com>; Campbell, Severin (BUD) <severin.campbell@sfgov.org>; Menard, Nicolas (BOS) <nicolas.menard@sfgov.org>; Holober, Reuben (BOS) <reuben.holober@sfgov.org>
Subject: File No. 210068 - Domestic Terminal 3 Common Use Club Lease No. 13-0006 - American Express Travel Related Services Company, Inc.

Chair Haney:

The Airport would like to request that the Domestic Terminal 3 Common Use Club Lease No. 13-0006 - American Express Travel Related Services Company, Inc. item, continued at the Finance Committee on April 7, 2021 be re-calendared for the May 26, 2021 meeting.

Airport staff has talked to Supervisor Safai and explained the reasoning and cost benefit of the proposed American Express common-use lounge expansion at SFO. I've cc'd the Budget Analyst staff on this email as it also addresses their comments on the category of rent assigned to the additional premises.

After reviewing the Finance Committee concerns, airport staff took another look at the rationale behind the lower/non-Category II rent for the expanded premises. We discovered that there is disconnect in how we currently classify lounge space related to the relatively new

common-use concept, rather than the traditional airline lounge. The important distinction is that the AMEX lounge is a concession lease and not subject to the Lease and Use Agreement/Rates and Charges. The lounge does not receive revenue support from airline tickets, mileage programs, etc. like the more traditional airline lounge model. We should have identified and made this distinction during the Budget Analyst’s reporting process.

After the proposed expansion, AMEX will pay a total blended per square foot rate of \$211.06 for the entire expanded lounge space (\$255 for the current space, and \$160 for the expansion space). This lower blended rate is justified in part due to the extensive tenant improvement investment AMEX is making in joining the existing space with the expansion space and building out the expansion space, as well as the fact that the expanded space is not usable space of value for any other concession purpose. For comparison: existing concession leases in Harvey Milk Terminal 1 pay between \$208 to \$225 per square foot, making the proposed \$211 blended rate extremely competitive.

Although Covenant and United Airlines (UAL) are currently paying a higher per square footage rate of \$255.21 (Cat 2 Rent), *they are only utilizing 28% of the overall expansion space* proposed to be absorbed by AMEX. The other 82% is non-usable/marketable space and the return on that space is zero. If you calculate the revenue SFO currently receives from UAL and Covenant over the entire expansion space, the blended per square foot rate is \$70.90. By approving the modification with AMEX the Airport will receive twice the premium lounge space with an overall MAG of \$211 per square foot up from the current \$70.90 per square foot and will generate revenue from previously unimproved and unmarketable space. In addition, the revenue SFO currently receives from UAL and Covenant will not be a loss, but relocated. The proposed expanded AMEX lease will increase revenue to the airport by \$1,134,080.

	Sq Ft		Rental Rate	Rent
Existing Lounge	8,199		\$255.21	\$2,092,467
Lounge Expansion	7,088		\$160.00	\$1,134,080
Total	15,287		\$211.06	\$3,226,547
	Sq Ft		Rental Rate	Rent
UAL/Covenant	1,969	28%	\$255.21	\$502,508
Non-Revenue SFO Occupied Space*	5,119	72%	\$0.00	\$0
Total	7,088	100%	\$70.90	\$502,508

Additionally, UAL and Covenant currently occupy their spaces by permit, which are terminable at any time upon 30 days’ written notice. The revenue that SFO currently earns from those permittees could be reduced to zero within 30 days’ notice. Under the modification with

AMEX, the expansion space will become subject to a non-terminable lease through 2031 with a Minimum Annual Guarantee.

SFO believes this remains a sound business decision and we appreciate the opportunity to review how the airport came to this proposed modification and review our rent standard moving forward on common use lounge leases.

Please let me know if there is any additional information the airport can provide.

Best,

Cathy Widener



Cathy Widener

SFO

Director | Government Affairs

650-821-5023