

MEMORANDUM

April 1, 2025

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

25-0050

APR 1 2025

FROM: Airport Director

SUBJECT: Approval of Amendment No.1 to the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease No. 20-0156 with MRG San Francisco Terminal 2, LLC

DIRECTOR'S RECOMMENDATION: (1) APPROVE AMENDMENT NO. 1 TO THE TERMINAL 2 RETAIL MARKET AND HARVEY MILK TERMINAL 1 SPECIALTY RETAIL STORES CONCESSION LEASE NO. 20-0156 WITH MRG SAN FRANCISCO TERMINAL 2, LLC, AND (2) DIRECT THE DIRECTOR OF COMMISSION AFFAIRS TO REQUEST APPROVAL OF THE AMENDMENT FROM THE BOARD OF SUPERVISORS PURSUANT TO SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

MRG San Francisco Terminal 2, LLC (Tenant) operates a Fireworks store and a MAC cosmetics store in Harvey Milk Terminal 1 (HMT1) under the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease (Lease). Tenant has yet to construct the last of its three premises under the Lease, a retail marketplace in Terminal 2. Construction has been delayed by pandemic-related lease extensions for surrounding leases and the need to phase construction to mitigate duplication of concepts.

A news wall and two specialty retail store locations will become available this year in Terminal 2 and Staff believes it to be in the Airport's best interest to add these locations to the Lease. The news wall will be a permanent addition to the Lease premises, but the two specialty retail store locations will be temporary operations, available for approximately two years, after which they are needed for a different use by different tenants. Staff recommends approval of Amendment No. 1 to the Lease (Amendment) which will add a news wall to the Lease premises on a permanent basis and add the two specialty retail store locations to the Lease premises for a period of approximately two years.

THIS PRINT COVERS CALENDAR ITEM NO. 5

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

DANIEL LURIE
MAYORMALCOLM YEUNG
PRESIDENTJANE NATOLI
VICE PRESIDENT

JOSE F. ALMANZA

MARK BUELL

SUSAN LEAL

MIKE NAKORKHET
AIRPORT DIRECTOR

Background

On September 15, 2020, by Resolution No. 20-0156, the Commission awarded the Lease to Tenant, with a base operating term of 12 years and consisting of two specialty retail stores in HMT1 and one retail marketplace in Terminal 2. Tenant has opened the two specialty retail stores in HMT1, which operate as Fireworks and MAC. The Terminal 2 retail market has yet to be constructed.

A lease with World Duty Free Group, Inc. is terminating in the coming months which includes a newsstand location, a news wall and two specialty retail stores, all located in Terminal 2. The newsstand will be used by Tenant for temporary operations while it is designing and constructing its permanent location, but there are no immediate plans for the remaining three locations. The news wall could be operated by Tenant and is a nice amenity for passengers in the gate area.

Additionally, Tenant could take advantage of economies of scale including storage, staffing, and management in operating a second nearby location. The two available specialty retail locations will be adjoined to a large, contiguous lounge space for future leasing. Staff anticipates that these two locations will be needed for lounge construction in mid-2027. But in advance of that, Tenant could operate these two locations in the interim, providing desirable shopping opportunities for the passengers and maintaining revenue sources for the Airport during a period that they would otherwise sit vacant.

Proposal

Staff recommends entering into an amendment of the Lease in accordance with the following terms and conditions:

1. Permanent Terminal 2 Premises – A 409 square foot news wall in Terminal 2, as depicted in Attachment A, will be added to the Premises.
2. Temporary Terminal 2 Premises – A 563 square foot retail store and a 603 square foot specialty retail store, as depicted in Attachment A, will be added to the Premises for a period commencing by October 1, 2025 and ending around October 1, 2027, as adjusted by the Airport Director as the spaces are needed for the start of renovation of the adjacent lounge space.
3. Promotional Charge – The annual Promotional Charge will increase from \$6,915 to \$8,496 to reflect the increase in square footage while Tenant operates in all three new Terminal 2 Premises. The annual Promotional Charge will be decreased to \$7,324 upon Tenant vacating the two temporary specialty retail locations. The Minimum Annual Guarantee will not be adjusted, as the increase in square footage of the overall Lease premises is not significant, but the sales of the additional premises will be included in the calculation of gross revenue for purposes of determining percentage rent.

Recommendation

I recommend adoption of the attached Resolution approving Amendment No. 1 to the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease No. 20-0156 with MRG San Francisco Terminal 2, LLC and directing the Director of Commission Affairs to forward Amendment No. 1 to the Board of Supervisors for approval 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 A

Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease No. 20-0156 with MRG San Francisco Terminal 2, LLC

