AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. \$5-0130

AUTHORIZATION OF AIRPORT DIRECTOR TO IMPLEMENT THE FOOD & BEVERAGE MINIMUM ANNUAL GUARANTEE AND PRE-SECURITY PERCENTAGE RENT REDUCTION PROGRAM

- WHEREAS, there are 69 Food & Beverage Leases (F&B Leases) at the Airport, and Base Rent on an annual basis is the greater of a tiered percentage of gross revenues (Percentage Rent) or a Minimum Annual Guarantee (MAG), with the exception of the Sky Terrace Employee Café which has a tiered Percentage Rent only; and
- WHEREAS, 18 of 69 F&B Leases feature MAGs that are substantially higher than what is considered market rent; and
- WHEREAS, the F&B Leases covering pre-security locations feature MAGs and Percentage Rent which are higher than what is considered market rent; and
- WHEREAS, the MAG is adjusted annually based on a Consumer Price Index (CPI) resulting in a continual increase in rent which is outpacing spending growth; and
- WHEREAS, it is the best interest for the Airport to preserve these business deals, maintain high quality food and beverage offerings for the traveling public, and support local employment by taking measures to ensure the lease are financially viable; and
- WHEREAS, Staff recommends enacting the Food & Beverage Minimum Annual Guarantee and Pre-Security Percentage Rent Reduction Program to normalize the MAG and Percentage Rent payments due under these F&B Leases (Program); and
- WHEREAS, the Program consists of: (1) establishing MAG for qualifying post-security F&B Lease locations for calendar year 2026 as the lesser of existing MAG or 12% of gross revenues for calendar year 2024, (2) establishing MAG for qualifying pre-security F&B Lease locations for calendar year 2026 as the lesser of existing MAG or 6% of gross revenues for calendar year 2024, (3) establishing Percentage Rent for qualifying pre-security F&B Lease locations at 6% effective January 1, 2026, and (4) beginning in 2026, change the method for adjusting MAG for all F&B Leases from using a specified CPI to the more common practice in the industry of MAG being adjusted each new Lease Year to be the greater of existing MAG or 85% of the prior year's Base Rent; and

AIRPORT COMMISSION

city and county of san francisco resolution no. $\frac{25-0130}{}$

- WHEREAS, in order to qualify for a MAG reduction under the Program, 2024 MAG for a post-security F&B Lease location must be in excess of 12% of gross revenues, or 2024 MAG for a pre-security F&B Lease location must be in excess of 6% of gross revenues, with all pre-security F&B Lease locations being eligible for the Percentage Rent reduction with the exception of the Sky Terrace Employee Café (Program Criteria); now, therefore, be it
- RESOLVED, that this Commission authorizes the Airport Director to implement the Food & Beverage Minimum Annual Guarantee Reduction and Pre-Security Percentage Rent Reduction Program by entering into appropriate amendments to F&B Leases which satisfy the Program Criteria, as outlined in this Resolution and on the other terms and conditions set forth in the accompanying memorandum from the Airport Director; and, be it further
- RESOLVED, the Director of Commission Affairs is directed to request approval from the San Francisco Board of Supervisors under Section 9.118 of the Charter of the City and County of San Francisco for those amendments requiring such approval.

Page 2 of 2

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

at its meeting of_

AUG 1 9 2025

Secretary



MEMORANDUM

August 19, 2025

TO:

AIRPORT COMMISSION

Hon. Malcolm Yeung, President Hon, Jane Natoli, Vice President

Hon. Jose F. Almanza

Hon, Mark Buell Hon, Susan Leal \$5-0130

AUG 1 9 2025

FROM:

Airport Director

SUBJECT:

Implementation of the Food & Beverage Minimum Annual Guarantee and

Pre-Security Percentage Rent Reduction Program

DIRECTOR'S RECOMMENDATION: (1) AUTHORIZE THE AIRPORT DIRECTOR TO IMPLEMENT THE FOOD & BEVERAGE MINIMUM ANNUAL GUARANTEE AND PRE-SECURITY PERCENTAGE RENT REDUCTION PROGRAM THROUGH AMENDMENTS OF CONCESSION LEASES AND (2) DIRECT THE DIRECTOR OF COMMISSION AFFAIRS TO OBTAIN APPROVAL FROM THE BOARD OF SUPERVISORS PURSUANT TO SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO FOR THOSE AMENDMENTS REQUIRING SUCH APPROVAL.

Executive Summary

Staff recommends that the Airport Commission (Commission) authorize the Airport Director to implement the Food & Beverage Minimum Annual Guarantee and Pre-Security Percentage Rent Reduction Program (Program) which will (i) lower the Minimum Annual Guarantee (MAG) for 18 of 69 Food & Beverage Leases (F&B Leases), (ii) lower the Percentage Rent Structure for seven presecurity F&B Leases, and (iii) alter the annual MAG adjustment methodology for all F&B Leases. commencing with calendar year 2026. The Program will ensure market rent is in place, helping to ensure the financial viability of the F&B Leases with the goal of preserving quality concessions, customer service, and employment at the Airport.

Background

The Airport currently has 69 F&B Leases and has long been an industry leader for having an elevated food and beverage program with a high level of local ownership, local concepts, and per passenger spending. Prior to the pandemic, continual growth in passengers and spend rate was the norm. Since the Fall of 2023, per passenger spending has declined for 18 of 21 months. For the months with growth, it was very modest, averaging less than two percent. While passenger spending has cooled, labor and construction costs have increased and there has been some volatility in commodities prices. Staff has engaged in many conversations with F&B Tenants who report losses. Outreach and analysis conducted in advance of the start of leasing the Terminal 3 West Renovation Program indicates the current rent and capital investment needs are no longer financially viable for large format food and beverage locations. Earlier this year, the Airport's concessions consultant aggregated profit and loss statements from the last two years from a sampling of our food and beverage tenants. The study revealed that earnings before interest and taxes for guick serve operations and sit-down restaurants were negative during 2023 and 2024. Coffee and grab & go locations fared much better with net profits ranging from 5.1% to 17.9%.

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Base Rent under the F&B Leases is the greater of a tiered percentage of gross revenues (Percentage Rent) or a MAG. During calendar year 2024, Base Rent averaged 15% for 18 of the 69 leases. The remaining F&B Leases had Base Rent averaging 10%. The food and beverage business deals were planned with Base Rent being in the range of 10% to 11% of gross revenues. With the margins on most F&B Leases being thin or negative, a few extra percentage points on any individual operational cost is acutely felt. In addition, under the current F&B Leases, the MAG is adjusted annually based on a Consumer Price Index (CPI), resulting in a continual increase in MAG which is outpacing customer spending growth.

Tenants in difficult financial positions sometimes lessen staffing, let product dwindle, and fall behind on rent, or seek to leave before lease expiration. The Airport wants to preserve its much-admired food and beverage offering for its guests and a viable business landscape for its tenants, a significant number of which include local ownership or are owned by Airport Concession Disadvantaged Business Enterprises (ACDBE) or both.

Components of the Program

For F&B Leases, Staff is recommending the following as the components of the Food & Beverage Minimum Annual Guarantee and Pre-Security Percentage Rent Reduction Program:

- (1) establish the MAG for qualifying post-security F&B Lease locations for calendar year 2026 as the lesser of existing MAG or 12% of gross revenues for calendar year 2024;
- (2) establish the MAG for qualifying pre-security F&B Lease locations for calendar year 2026 as the lesser of existing MAG or 6% of gross revenues for calendar year 2024;
- (3) establish Percentage Rent for qualifying pre-security F&B Lease locations at 6% effective January 1, 2026; and
- (4) beginning in 2026, change the method for adjusting the MAG for all F&B Leases from using a specified CPI to the more common practice in the industry of MAG being adjusted each new Lease Year to be the greater of existing MAG or 85% of the prior year's Base Rent.

For F&B Lease locations which did not operate a full 12 months in 2024 or had only a portion of their premises open in 2024, Staff is using estimated sales for the basis of the calculations described above. The proposed Program will be in effect through the expiration of the F&B Leases.

Program Criteria

To qualify for a reduction in MAG under the Program, a tenant's 2024 MAG must be in excess of 12% of gross revenues for Lease Year 2024 for post-security locations and in excess of 10% of gross revenues for Lease Year 2024 for pre-security locations. With the exception of the Sky Terrace Employee Café, all pre-security F&B Lease locations are recommended for a reduction in Percentage Rent under the Program Criteria.

Attachment A lists the 69 F&B Leases and notes (i) the 18 which meet the Program Criteria for MAG reductions and (ii) the seven which meet the Program Criteria for Percentage Rent reductions. Attachment A also indicates those tenants which are locally owned or are certified ACDBE.

Certain lease amendments will require Board of Supervisors approval under Section 9.118 of the Charter of the City and County of San Francisco.

Proposal

Staff is recommending approval of the Program as outlined above. Under this Program, (1) MAG will be reduced for 18 of 69 F&B Leases, (2) Percentage Rent will be lowered for the seven F&B Leases covering pre-security locations, and (3) the annual MAG adjustment methodology will change for all F&B Leases. The value of this relief program for calendar year 2026 is estimated at \$1,650,000 or 5% of total food and beverage rent. It is estimated, however, that this cost will be neutralized by rent from new locations and modest sales growth.

Recommendation

I recommend the Commission adopt the accompanying Resolution (1) authorizing the Airport Director to implement the Food & Beverage Minimum Annual Guarantee and Pre-Security Percentage Rent Reduction Program as outlined in this memorandum, which will include entering into appropriate amendments with concessionaires consistent with such provisions, and (2) directing the Director of Commission Affairs to request the approval from the San Francisco Board of Supervisors for those lease amendments requiring such approval under 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

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
1	Amoura International, Inc. Lease No. 16-0312	Amoura Café		Х	
2	Amoura International, Inc. Lease No. 23-0236	Taste of the City		Х	
3	Amy's Kitchen Restaurant Operating Company, LLC Lease No. 18-0211	Amy's Drive Thru	MAG reduced	х	
4	Andale Management Group, Inc. Lease No. 10-0034	Andale		Х	х
5	Andale Management Group, Inc. Lease No. 16-0012	Valencia St. Station	MAG reduced	Х	х
6	Andre-Boudin Bakeries, Inc. Lease No. 17-0239	Boudin Bakery		Х	
7	Asian Box Palo Alto, LLC Lease No. 16-0015	Asian Box		Х	
8	Bayport Concessions, LLC Lease No. 03-0183	Koi Palace		Х	Х
9	BJ Annex, LLC Lease No. 10-0035	Burger Joint	·	Х	
10	Black Point Coffee SFO, LLC Lease No. 17-0254	Black Point Café		Х	
11	Bun Mee, LLC Lease No. 18-0209	Bun Mee		Х	X
12	Bun Mee, LLC Lease No. 16-0313	Bun Mee		Х	X
13	Burger Joint, Inc. Lease No. 03-0199	Mission Bar & Grill		Х	
14	Culinary Heights Hospitality Lease No. 20-0043	Ritual Coffee		Х	
15	Elevate Gourmet Brands, Inc. and Aimhigh ESG, LLC, a joint venture d.b.a. Elevate Gourmet Brands Gourmet Brands - SFO Group Lease No. 18-0346	Green Beans		X	X

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
16	Elevate Gourmet Brands - SFO Group Lease No. 19-0247	Pronto!	MAG reduced	х	Х
17	Elevate Gourmet Brands, Inc. dba Pronto! Lease No. 03-0184	Pronto!		х	
18	Elevated Tastes SFO Inc Lease No. 16-0016	Tomokazu		Х	
19	Gate 74, Inc. Lease No. 03-0189	Burger King		Х	х
20	Gate 74, Inc. Lease No. 16-0311	Proposition Chicken	MAG reduced	Х	Х
21	Gate 74, Inc. Lease No. 16-0314	Sushirrito Express		Х	Х
22	Gateside, LLC Lease No. 18-0217	Gateside Market		Х	
23	Gotham Enterprises, LLC Lease No. 10-0030	Peet's Coffee locations in T2		Х	
24	Gotham Enterprises, LLC Lease No. 03-0193	Peet's Coffee in T3		Х	
25	Guava & Java (SFO), Inc. Lease No. 03-0191	Two Dogpatch Bakehouse locations		Х	
26	Guava & Java (SFO), Inc. Lease No. 23-0197	Two Black Point Coffee locations		Х	
27	HBF Soto JV, LLC Lease No. 10-0031	Cat Cora		Х	
28	HBF Soto JV, LLC Lease No. 10-0036	The Plant Organic Café, Pinkberry		X	
29	Heigh Connects, LLC Lease No. 20-0044	Poke to the Max	MAG reduced	Х	
30	HFF-BRH-SFO, LLC Lease No. 16-0316	Farmerbrown	MAG reduced	Х	
31	High Flying Foods SFO, LLC Lease No. 16-0013	Gott's Roadside		Х	

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
32	IOC Design and Consulting, LLC Lease No. 24-0270	Panda Express		х	х
33	Joe & the Juice New York, LLC Lease No. 16-0018	Joe & The Juice			
34	Lady Luck Gourmet, LLC Lease No. 18-0215	Mama Go's Filipino Cuisine		Х	
35	Marina's Café Lease No. 12-0221	Marina's Cafe		X	
36	Paradies Lagardere @ SFO (F&B), LLC Lease No. 18-0212	Bourbon Pub		Х	X
37	Park Cafe Group, Inc. Lease No. 19-0244	Dolores Park Café		Х	х
38	Proper Food SFO Airport, LLC Lease No. 20-0041	Proper Food		×	Х
39	Rylo Management, LLC Lease No. 19-0054	Farley's Community Cafe	MAG reduced	Х	х
40	San Francisco Soup Co. Lease No. 16-0309	Ladle and Leaf		Х	
41	Sankaku, Inc. Lease No. 03-0180	Sankaku		Х	Х
42	Sankaku, Inc. Lease No. 10-0033	Wakaba		Х	Х
43	SF Foodways, LLC Lease No. 18-0216	Flyaway by Drake's Brewing Co.		Х	
44	SF Uncork'd, LLC Lease No. 12-0089	SF Uncork'd		X	
45	Sky Terrace, LLC Lease No. 19-00230	Sky Terrace Employee Cafe		Х	
46	Sidewalk Juice SFO, LLC Lease No. 19-0245	Sidewalk Juice		Х	

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
47	Silver Dragon Cafe, LLC Lease No. 16-0310	Bacon Bacon		Х	х
48	Soaring Food Group, LLC Lease No. 18-0214	Illy Caffé	MAG reduced	Х	х
49	SSP America, Inc. Lease No. 16-0017	1300 on Fillmore	MAG reduced	Х	х
50	SSP America, Inc. Lease No. 18-0074	Sweet Maple	MAG reduced	X	Х
51	SSP America, Inc. Lease No. 18-0210	The Little Chihuahua	MAG reduced	Х	Х
52	SSP America, Inc. Lease No. 17-0238	Marina's Café, Manufactory Food Hall	MAG reduced	Х	х
53	SSP America, Inc. Lease No. 03-0200	Union Street Gastropub		Х	х
54	Tastes on the Fly San Francisco, LLC Lease No. 03-0192	Two Klein's Deli locations		х	
55	Tastes on the Fly San Francisco, LLC Lease No. 10-0029	Napa Farms Market, Vino Volo		х	
56	Tastes on the Fly San Francisco, LLC Lease No. 23-0235	Perry's		х	
57	Tastes on the Fly San Francisco, LLC Lease No. 16-0315	San Francisco Giants Club House		×	
58	Tastes on the Fly San Francisco, LLC Lease No. 18-0213	Starbird		×	
59	Tastes on the Fly San Francisco, LLC Lease No. 10-0032	The Grill by Lark Creek		х	
60	Tastes on the Fly SFO International, LLC Lease No. 16-0014	Mustards Bar & Grill, Napa Farms Market		X	

	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
61	Tastes on the Fly San Francisco, LLC Lease No. 23-0234	SF Eats Food Hall		х	
62	Urban Tortilla, Inc Lease No. 03-0187	Urban Tortilla		Х	

Pre-security concessions					
	Tenant Entity and Lease Number	Concept	MAG and/or Percentage Rent Reduction	Local Ownership	ACDBE
63	Bayport Concessions, LLC Lease No. 16-0021	Koi Palace Express	MAG and Percentage Rent reduced	Х	Х
64	Elevate Gourmet Brands - SFO Group Lease No. 14-0046	Pronto!	MAG and Percentage Rent reduced	Х	х
65	Host International, Inc. Lease No. 16-0023	Starbucks - Arrivals	Percentage Rent reduced	X	Х
66	SF Foodways, LLC Lease No. 16-0022	Potrero Grill & Tapas & Taps	MAG and Percentage Rent reduced	Х	
67	SSP America SFO, LLC Lease No. 16-0020	Roasting Plant	MAG and Percentage Rent reduced	Х	
68	SSP America, Inc. Lease No. 16-0024	Wendy's	MAG and Percentage Rent reduced	Х	Х
69	World Duty Free Group North America, LLC Lease No. 12-0085	Green Beans	MAG and Percentage Rent reduced	Х	х