

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

65-0130

= AUG 19 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 pre-security 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 quick 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%.

THIS PRINT COVERS CALENDAR ITEM NO. 2

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

DANIEL LURIE
MAYORMALCOLM YEUNG
PRESIDENTJANE NATOLI
VICE PRESIDENT

JOSE F. ALMANZA

MARK BUELL

SUSAN LEAL

MIKE NAKORNKHET
AIRPORT DIRECTOR

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

Attachment A
Food & Beverage Concessions

| | 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 | | X | |
| 2 | Amoura International, Inc. Lease No. 23-0236 | Taste of the City | | X | |
| 3 | Amy's Kitchen Restaurant Operating Company, LLC Lease No. 18-0211 | Amy's Drive Thru | MAG reduced | X | |
| 4 | Andale Management Group, Inc. Lease No. 10-0034 | Andale | | X | X |
| 5 | Andale Management Group, Inc. Lease No. 16-0012 | Valencia St. Station | MAG reduced | X | X |
| 6 | Andre-Boudin Bakeries, Inc. Lease No. 17-0239 | Boudin Bakery | | X | |
| 7 | Asian Box Palo Alto, LLC Lease No. 16-0015 | Asian Box | | X | |
| 8 | Bayport Concessions, LLC Lease No. 03-0183 | Koi Palace | | X | X |
| 9 | BJ Annex, LLC Lease No. 10-0035 | Burger Joint | | X | |
| 10 | Black Point Coffee SFO, LLC Lease No. 17-0254 | Black Point Café | | X | |
| 11 | Bun Mee, LLC Lease No. 18-0209 | Bun Mee | | X | X |
| 12 | Bun Mee, LLC Lease No. 16-0313 | Bun Mee | | X | X |
| 13 | Burger Joint, Inc. Lease No. 03-0199 | Mission Bar & Grill | | X | |
| 14 | Culinary Heights Hospitality Lease No. 20-0043 | Ritual Coffee | | X | |
| 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 |

Attachment A

Food & Beverage Concessions

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|----|--|-----------------------------------|--------------------------------------|-----------------|-------|
| 16 | Elevate Gourmet Brands - SFO Group Lease No. 19-0247 | Pronto! | MAG reduced | X | X |
| 17 | Elevate Gourmet Brands, Inc. dba Pronto! Lease No. 03-0184 | Pronto! | | X | |
| 18 | Elevated Tastes SFO Inc Lease No. 16-0016 | Tomokazu | | X | |
| 19 | Gate 74, Inc. Lease No. 03-0189 | Burger King | | X | X |
| 20 | Gate 74, Inc. Lease No. 16-0311 | Proposition Chicken | MAG reduced | X | X |
| 21 | Gate 74, Inc. Lease No. 16-0314 | Sushirrito Express | | X | X |
| 22 | Gateside, LLC Lease No. 18-0217 | Gateside Market | | X | |
| 23 | Gotham Enterprises, LLC Lease No. 10-0030 | Peet's Coffee locations in T2 | | X | |
| 24 | Gotham Enterprises, LLC Lease No. 03-0193 | Peet's Coffee in T3 | | X | |
| 25 | Guava & Java (SFO), Inc. Lease No. 03-0191 | Two Dogpatch Bakehouse locations | | X | |
| 26 | Guava & Java (SFO), Inc. Lease No. 23-0197 | Two Black Point Coffee locations | | X | |
| 27 | HBF Soto JV, LLC Lease No. 10-0031 | Cat Cora | | X | |
| 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 | X | |
| 30 | HFF-BRH-SFO, LLC Lease No. 16-0316 | Farmerbrown | MAG reduced | X | |
| 31 | High Flying Foods SFO, LLC Lease No. 16-0013 | Gott's Roadside | | X | |

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|----|---|--------------------------------|--------------------------------------|-----------------|-------|
| 32 | IOC Design and Consulting, LLC Lease No. 24-0270 | Panda Express | | X | X |
| 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 | | X | |
| 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 | | X | X |
| 37 | Park Cafe Group, Inc. Lease No. 19-0244 | Dolores Park Café | | X | X |
| 38 | Proper Food SFO Airport, LLC Lease No. 20-0041 | Proper Food | | X | X |
| 39 | Rylo Management, LLC Lease No. 19-0054 | Farley's Community Cafe | MAG reduced | X | X |
| 40 | San Francisco Soup Co. Lease No. 16-0309 | Ladle and Leaf | | X | |
| 41 | Sankaku, Inc. Lease No. 03-0180 | Sankaku | | X | X |
| 42 | Sankaku, Inc. Lease No. 10-0033 | Wakaba | | X | X |
| 43 | SF Foodways, LLC Lease No. 18-0216 | Flyaway by Drake's Brewing Co. | | X | |
| 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 | | X | |
| 46 | Sidewalk Juice SFO, LLC Lease No. 19-0245 | Sidewalk Juice | | X | |

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

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|----|---|-------------------|---|------------------------|--------------|
| 61 | Tastes on the Fly San Francisco, LLC Lease No. 23-0234 | SF Eats Food Hall | | X | |
| 62 | Urban Tortilla, Inc Lease No. 03-0187 | Urban Tortilla | | X | |

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 | X | X |
| 64 | Elevate Gourmet Brands - SFO Group Lease No. 14-0046 | Pronto! | MAG and Percentage Rent reduced | X | X |
| 65 | Host International, Inc. Lease No. 16-0023 | Starbucks - Arrivals | Percentage Rent reduced | X | X |
| 66 | SF Foodways, LLC Lease No. 16-0022 | Potrero Grill & Tapas & Taps | MAG and Percentage Rent reduced | X | |
| 67 | SSP America SFO, LLC Lease No. 16-0020 | Roasting Plant | MAG and Percentage Rent reduced | X | |
| 68 | SSP America, Inc. Lease No. 16-0024 | Wendy's | MAG and Percentage Rent reduced | X | X |
| 69 | World Duty Free Group North America, LLC Lease No. 12-0085 | Green Beans | MAG and Percentage Rent reduced | X | X |