

1 [Airport Specialty Retail Minimum Annual Guarantee Rent Reduction Program]

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3 **Resolution approving the Specialty Retail Minimum Annual Guarantee Rent**  
4 **Reduction Program for certain specialty retail concession tenants, allowing the**  
5 **Airport to do a one-time adjustment of the Minimum Annual Guarantees due under**  
6 **the leases, and changing the method for future adjustments of the Minimum Annual**  
7 **Guarantees.**

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9 WHEREAS, There are 17 Specialty Retail leases at the Airport that pay Base Rent on  
10 an annual basis equal to the greater of a tiered percentage of gross sales (Percentage Rent)  
11 or a Minimum Annual Guarantee (MAG); and

12 WHEREAS, The MAG is adjusted annually based on a Consumer Price Index (CPI)  
13 resulting in continual increase in rent; and

14 WHEREAS, As a category of concession leases, the Specialty Retail leases are an  
15 important category of leases that are expected by the traveling public, including gift stores,  
16 confections and electronic merchandise, but they currently have an abnormally high rent as a  
17 percentage of sales brought about by a significant drop in per passenger spending, 17% when  
18 compared to pre-pandemic activity, and annual MAG growth of approximately 2%; and

19 WHEREAS, 12 of the 16 Specialty Retail leases feature MAGs that are substantially  
20 higher than what is considered sustainable market rent; and

21 WHEREAS, One Specialty Retail lease, Lease No. 23-0250 with Chalo, LLC doing  
22 business as Chalo, is still under construction; and

23 WHEREAS, It is in the best interest for the Airport to make adjustments to the Base  
24 Rent in order to ensure the leases remain financially viable and the operations of such

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1 concessions continue, which will maintain important retail offerings for the traveling public and  
2 support local employment; and

3 WHEREAS, The Specialty Retail Minimum Annual Guarantee Rent Reduction Program  
4 consists of the following main terms: 1) for those Specialty Retail leases with a Rent  
5 Commencement Date prior to January 1, 2023, a one-time reset of the MAG commencing  
6 with Calendar Year 2025 to the lesser of the existing MAG or 16% of gross sales during  
7 Calendar Year 2023; 2) for Specialty Retail Lease, Lease No. 23-0250 with Chalo, LLC, a  
8 one-time reset of the MAG for Calendar Year 2026 equal to the lesser of the MAG for  
9 Calendar Year 2025 or 16% of gross sales during Calendar Year 2025, and 3) beginning with  
10 the next MAG adjustment date for each such lease in the program, change the method for  
11 adjusting the MAG from an annual CPI adjustment to the more common practice in the  
12 industry of MAG being adjusted to the greater of the existing MAG or 85% of prior year's Base  
13 Rent, which is more in line with industry practice; and

14 WHEREAS, On October 15, 2024, by Resolution No. 24-0222, the Airport Commission  
15 approved the Specialty Retail Minimum Annual Guarantee Rent Reduction Program; now,  
16 therefore, be it

17 RESOLVED, That this Board of Supervisors approves the Specialty Retail Minimum  
18 Annual Guarantee Rent Reduction Program and the execution of appropriate amendments to  
19 each of the Specialty Retail leases listed on Attachment A attached to the Airport Director's  
20 memorandum which accompanies this Resolution, which is included in Board of Supervisors  
21 in File No. \_\_\_\_\_; and, be it

22 FURTHER RESOLVED, That within thirty (30) days of the amendments being fully  
23 executed by all parties, the Commission shall provide the final amendments to the Clerk of the  
24 Board for inclusion into the official file.

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**Attachment A**  
**Specialty Retail Concessions**

|    | <b>Tenant Entity and Lease Number</b>                            | <b>Concept</b>                                                  | <b>Local Ownership</b> | <b>ACDBE</b> |
|----|------------------------------------------------------------------|-----------------------------------------------------------------|------------------------|--------------|
| 1  | Air Sun JV<br>Lease No. 18-0233                                  | Sunglass Hut<br>(T3 BA/E)                                       |                        | X            |
| 2  | Air Sun JV<br>Lease No. 18-0345                                  | Sunglass Hut<br>(T2)                                            |                        | X            |
| 3  | Apparel Sourcing and<br>Production, LLC<br>Lease No. 19-0053     | We Are SF<br>(T2)                                               | X                      |              |
| 4  | Brookstone SFO T-2, LLC<br>Lease No. 18-0071                     | Brookstone<br>(T2)                                              |                        |              |
| 5  | Canonica New York, LLC<br>Lease No. 17-0210                      | The Chocolate Market<br>(IT BA/G)                               |                        |              |
| 6  | Canonica New York, LLC<br>Lease No. 18-0073                      | The Chocolate Market<br>(T2)                                    |                        |              |
| 7  | Canonica New York, LLC<br>Lease No. 18-0284                      | The Chocolate Market<br>(T3 BA/E)                               |                        |              |
| 8  | Chalo, LLC<br>Lease No. 23-0250                                  | Chalo<br>(T3 BA/F)                                              |                        |              |
| 9  | DFS Group, L.P.<br>Lease No. 17-0209                             | Sunglasses & Watches<br>(IT BA/A)                               |                        | X            |
| 10 | Emporio Rulli, Inc.<br>Lease No. 18-0395                         | G.R. Chocolates<br>(HMT1)                                       | X                      |              |
| 11 | Genesco Partners Joint<br>Venture #11<br>Lease No. 20-0046       | Johnston & Murphy<br>(HMT1)                                     |                        |              |
| 12 | InMotion Entertainment<br>Group, LLC<br>Lease No. 18-0203        | iStore<br>(HMT1)                                                | X                      | X            |
| 13 | InMotion SFO-IT, LLC<br>Lease No. 18-0231                        | InMotion Entertainment<br>(IT BA/A)                             |                        |              |
| 14 | InMotion SFO-T3, LLC<br>Lease No. 18-0232                        | InMotion Entertainment<br>(T3 BA/E),<br>Sound Balance (IT BA/G) |                        |              |
| 15 | L'Occitane Airport Venture,<br>LLC. Lease No. 18-0205            | L'Occitane<br>(HMT1)                                            |                        | X            |
| 16 | RAKH, Inc.<br>Lease No. 18-0207                                  | NYS Collection Eyewear<br>(HMT1)                                | X                      |              |
| 17 | World Duty Free Group North<br>America, LLC<br>Lease No. 15-0039 | Jo Malone, Tom Ford, Aveda<br>(T3 East)                         |                        | X            |

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