





San Francisco International Airport

**MEMORANDUM**

March 19, 2019

TO: AIRPORT COMMISSION  
Hon. Larry Mazzola, President  
Hon. Linda S. Crayton, Vice President  
Hon. Eleanor Johns  
Hon. Richard J. Guggenlime  
Hon. Malcolm Yeung

FROM: Airport Director

SUBJECT: Award of the Terminal 2 Specialty Retail Lease No. 2 to MRG San Francisco, LLC

DIRECTOR'S RECOMMENDATION: (1) AWARD THE TERMINAL 2 SPECIALTY RETAIL LEASE NO. 2 TO MRG SAN FRANCISCO, LLC; AND (2) DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL OF THE LEASE FROM THE BOARD OF SUPERVISORS.

**Executive Summary**

The competitive selection process for the Terminal 2 Specialty Retail Lease No. 2 has concluded and Staff recommends award of the Lease to the sole proposer, MRG San Francisco, LLC using the concept "Hello Karl!"

**Background**

On October 16, 2018, by Resolution No. 18-0352, the Airport Commission (Commission) authorized Staff to commence the competitive selection process and issue a Request for Proposals (RFP) for Terminal 2 Specialty Retail Lease No. 2 (Lease). Staff conducted an informational conference on November 15, 2018 at which Staff presented the Lease to interested parties and gathered their feedback. The interested parties offered no substantive comments or recommendations, so Staff recommended no changes to the minimum qualification requirements or lease specifications.

On December 18, 2018, by Resolution No. 18-0402, the Commission approved the lease specifications and authorized Staff to accept proposals for the Lease. In response to the RFP, the Airport received one proposal by the January 30, 2019 submittal deadline from MRG San Francisco, LLC (MRG).

Staff convened a three-member panel to evaluate the proposal. The panel consisted of the following: a Property Manager from San Jose International Airport, a Senior Building Inspector from Design and Construction at the Airport, and a Principal Property Manager with Aviation Management at the Airport.

THIS PRINT COVERS CALENDAR ITEM NO. 3

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR    LARRY MAZZOLA PRESIDENT    LINDA S. CRAYTON VICE PRESIDENT    ELEANOR JOHNS    RICHARD J. GUGGENHIME    MALCOLM YEUNG    IVAR C. SATERO AIRPORT DIRECTOR

The evaluation panel's score is presented below:

PROPOSER	CONCEPT NAME	SCORE
MRG San Francisco, LLC	Hello Karl!	88.50

The Minimum Annual Guarantee (MAG) for the first lease year is \$225,000.00. Base rent is the greater of the MAG (adjusted annually) or the following tiered percentage rent:

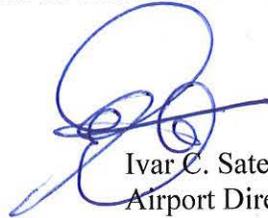
- 12% of Gross Revenues achieved up to and including \$500,000.00; plus
- 14% of Gross Revenues achieved from \$500,000.01 up to and including \$1,000,000.00; plus
- 16% of Gross Revenues achieved over \$1,000,000.00.

The Lease term is seven years with two 1-year options.

This will be MRG's first specialty retail store at the Airport. They currently operate District Market in the hub of Boarding Area F, and were recently awarded two newsstand leases: one lease covering two locations in Terminal 1 Boarding Area B; and one lease with one location in Boarding Area C. For this Lease, they are partnering with Marilla Chocolate Company and Procurement Concepts, both of whom are certified Airport Concession Disadvantaged Business Enterprises and each with 10% ownership in the partnership of MRG.

### **Recommendation**

I recommend the Commission: (1) award the Lease to MRG San Francisco, LLC for a term of seven years and a Minimum Annual Guarantee for the first lease year of \$225,000.00; and (2) direct the Commission Secretary to request approval of the Lease from the Board of Supervisors.



Ivar C. Satero  
Airport Director

Prepared by: Leo Fermin  
Chief Business & Finance Officer

Attachments

# Attachment 1

## Terminal 2 Specialty Retail Lease No. 2

