

AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 19-0101

ASSIGNMENT OF THE FOLLOWING LEASES FROM PACIFIC GATEWAY CONCESSIONS, LLC TO STELLAR PARTNERS, INC.: (I) BOARDING AREAS B AND C PRINCIPAL CONCESSION RETAIL LEASE NO. 98-0228, (II) INTERNATIONAL TERMINAL NEWSSTAND LEASE NO. 17-0208, AND (III) INTERNATIONAL TERMINAL NEWSSTAND LEASE NO. 17-0211

WHEREAS, Pacific Gateway Concessions, LLC (PGC) holds the tenant interest in the following concession leases at the Airport: (i) Boarding Areas B and C Principal Concession Retail Lease No. 98-0228, (ii) International Terminal Newsstand Lease No. 17-0208, and (iii) International Terminal Newsstand Lease No. 17-0211 (collectively, the PGC Leases); and

WHEREAS, On March 4, 2019, PGC informed Airport staff that its owners are downsizing in preparation for retirement and requested the Airport's consent to an assignment of its interest in the PGC Leases (collectively, the PGC Lease Assignments) to Stellar Partners, Inc. (Stellar), another operator of concessions at the Airport, and a subsidiary of Host International, Inc. (Host); and

WHEREAS, if consented to, the PGC Lease Assignments will result in the parent company of Stellar, Host, owning the tenant interest in eleven leases at the Airport, which technically exceeds the maximum number of leases that may be held by any one entity or individual, at any level of ownership, pursuant to the policy of the Airport adopted by the Commission by Resolution 10-0201 on June 10, 2010 (the Maximum Lease Policy); and

WHEREAS, while the number of leases that will be held by Host will temporarily exceed the number mandated by the Maximum Lease Policy, Staff advises the Commission that three of the eleven leases should not be counted towards the maximum number, based on the following: (i) two of the leases (one lease currently held by PGC and one currently held by Host) were recently extended past their original terms on a temporary basis at the request of and for the convenience of the Airport in order to maintain customer service in areas impacted by the Airport's construction activities in the terminals; and (ii) the term of a third lease (currently held by Host) will not commence until March 2020; and

WHEREAS, in addition, two other leases currently held by Stellar will expire in December 2019, bringing the total number of leases owned by Host to six at that time, which will increase to seven in March 2020 once the additional location opens, which will be below the number permitted by the Maximum Lease Policy; and

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- WHEREAS, the PGC Lease Assignments are subject to Commission approval; and
- WHEREAS, Airport staff has reviewed the financial position of Stellar and all other criteria typically used to evaluate consent requests for lease assignments, and found each to be satisfactory; and
- WHEREAS, Stellar, as tenant, will be subject to all existing terms, covenants, and conditions of the PGC Leases; now, therefore, be it
- RESOLVED, that this Commission hereby consents to the lease assignments by Pacific Gateway Concessions, LLC to Stellar Partners, Inc. of the Boarding Areas B and C Principal Concession Retail Lease No. 98-0228, the International Terminal Newsstand Lease No. 17-0208 and the International Terminal Newsstand Lease No. 17-0211.

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I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of _____

MAY - 7 2019

Secretary



MEMORANDUM

May 7, 2019

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

19-0101

MAY - 7 2019

FROM: Airport Director

SUBJECT: Assignment of the Boarding Areas B and C Principal Concession Retail Lease No. 98-0228, International Terminal Newsstand Lease No. 17-0208, and International Terminal Newsstand Lease No. 17-0211 by Pacific Gateway Concessions, LLC to Stellar Partners, Inc.

DIRECTOR'S RECOMMENDATION: CONSENT TO THE ASSIGNMENT OF THE BOARDING AREAS B AND C PRINCIPAL CONCESSION RETAIL LEASE NO. 98-0228, INTERNATIONAL TERMINAL NEWSSTAND LEASE NO. 17-0208, AND INTERNATIONAL TERMINAL NEWSSTAND LEASE NO. 17-0211 BY PACIFIC GATEWAY CONCESSIONS, LLC TO STELLAR PARTNERS, INC.

Executive Summary

On March 4, 2019, Pacific Gateway Concessions, LLC (PGC) informed the Airport staff that its owners are downsizing in preparation for retirement and requested the Airport's consent to an assignment of three of its concession leases to Stellar Partners, Inc. (Stellar), another operator of concessions at the Airport, and a subsidiary of Host International, Inc. (Host).

PGC holds the tenant interest in the following concession leases at the Airport: (i) Boarding Areas B and C Principal Concession Retail Lease No. 98-0228, (ii) International Terminal Newsstand Lease No. 17-0208, and (iii) International Terminal Newsstand Lease No. 17-0211 (collectively, the PGC Leases). Although the requested assignment is from PGC to Stellar, if consented to, the assignment will result in the parent company of Stellar, Host, owning the tenant interest in 11 leases at the Airport, which technically exceeds the maximum number of leases that may be held by any one entity or individual, at any level of ownership. On June 1, 2010, by Resolution No. 10-0201, the Commission established an Airport policy to limit the number of leases, food/beverage and retail combined, held by an individual or entity to eight leases (the Maximum Lease Policy).

While the number of leases that will be held by Host will temporarily exceed the number mandated by the Maximum Lease Policy, Staff calculates that three of the 11 leases should not be counted towards the total number, based on the following: (i) two of the leases (one PGC Lease and one Host Lease) were recently extended past their original terms on a temporary basis at the request of and for the convenience of the Airport in order to maintain customer service in areas impacted by the Airport's

THIS PRINT COVERS CALENDAR ITEM NO. 5

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

construction activities in the terminals; and (ii) the term of a third lease (one Host lease) will not commence until March 2020. Given that two other leases currently held by Stellar will expire in December 2019, the total number of leases ultimately owned by Host, excluding the two extensions mentioned above, will be six at that time. The total number of leases will increase to seven in March 2020 once the additional location opens, which remains below the number of leases permitted by the Maximum Lease Policy. Attachment A to this memorandum sets forth all the leases which will be held by Host as a result of the proposed assignment. Staff recommends that the Commission consent to the proposed lease assignments by PGC to Stellar.

Background

On September 15, 1998 by Resolution No. 98-0228, the Commission awarded Boarding Areas B and C Principal Concession Retail Lease No. 98-0228 to PGC. The term was extended for three additional periods pursuant to Resolution No. 03-0164, adopted on October 9, 2002, Resolution No. 09-0132, adopted on May 22, 2009, and Resolution No. 15-0231, adopted on October 27, 2015. The term currently expires July 22, 2019, to coincide with the permanent closure of Interim Boarding Area B and the opening of the new Boarding Area B Terminal 1.

On September 5, 2017, by Resolution No. 17-0208, the Commission awarded the International Terminal Newsstand No. 17-0208 to PGC. This lease has a term of seven years with two 1-year options. The option terms have not been exercised and the expiration date is presently July 31, 2025.

On September 5, 2017, by Resolution No. 17-0211, the Commission awarded the International Terminal Newsstand Lease No. 17-0211 to PGC. This lease has a term of seven years with two 1-year options. The option terms have not been exercised and the expiration date is presently July 31, 2025.

PGC is a local company that started at the Airport in 1999. During 2018, their sales at the Airport were \$9,208,499. PGC has locations in 10 domestic airports, generating annual sales of nearly \$70,000,000. On March 4, 2019, PGC informed the Airport staff that its owners are downsizing in preparation for retirement and requested the Airport's consent to an assignment of the Leases to Stellar.

Stellar is a woman-owned airport retail concessionaire headquartered in Florida. They presently operate three specialty retail stores at the Airport. Stellar operates 57 stores in 15 domestic airports, generating annual revenues of approximately \$62 million. In 2016, Host acquired Stellar, although Staff understands that Stellar operates largely as an independent subsidiary.

Airport's Evaluation Criteria for Lease Assignments

The PGC Leases require advance written consent of the Airport for any assignment or transfer of tenant's interest in the leases, which consent may be granted or denied in the Airport's sole and absolute discretion.

As a general practice, Airport staff evaluates requests for consent to assignment/transfer and recommends consent if the following criteria have been met:

- A tenant has opened and operated its facility for a sufficient period to demonstrate that the terms of the lease will be satisfied, regardless of whether the lease is assigned to another business. Here, Airport staff is confident in Stellar's ability to abide by the terms of the PGC Leases and continue to maintain the quality of the concessions operated under the PGC Leases.

- The proposed assignee's experience and financial capability in operating the type of concession to be assigned is deemed sufficient. Here, Airport staff has reviewed the financial documents provided and found Stellar to be financially sound.
- Any plans by the proposed assignee to re-concept, the appropriateness and desirability of such concept change, and the business terms between the assignor and assignee are considered. Here, Stellar does not plan to re-concept any of the spaces demised under the PGC Leases.
- The status of the Tenant's current standing with the Airport is considered. Here, PGC is current on its financial obligations to the Airport and has thus far abided by the terms of the PGC Leases.

Staff recommends the Commission consent to the assignment of the PGC Leases to allow the owners of PGC to continue with the sale of their business as they prepare for retirement.

Recommendation

I recommend the Commission adopt the attached Resolution for the Assignment of the Boarding Areas B and C Principal Concession Retail Lease No. 98-0228, International Terminal Newsstand Lease No. 17-0208, and International Terminal Newsstand Lease No. 17-0211 by Pacific Gateway Concessions, LLC to Stellar Partners, Inc.



Ivar C. Satero
Airport Director

Prepared by: Leo Fermin
Chief Business & Finance Officer

Attachments

ATTACHMENT A

Should the PGC Transfer to Stellar be approved, Host will have ownership in the following leases:

	Tenant Entity	Concept Name	Expiration Date
1	Stellar Partners, Inc.	Boucle (T3)	12/31/19
2	Stellar Partners, Inc.	Greetings at SF (T3)	12/31/19
3	Host International, Inc.	Starbucks (T2)	4/30/21
4	Host International, Inc.	Starbucks (IT and T3)	12/31/23
5	Host International, Inc.	Super Duper Burger (T3)	8/31/24
6	BARG (Host is 49% partner)	Max's (T1 and T3)	11/17/25
7	Pacific Gateway Concessions, LLC	New Stand (IT-A)	7/31/25
8	Pacific Gateway Concessions, LLC	New Stand (IT-G)	7/31/25

Leases Not Counted In The Limit of 8 Calculation:

	Tenant Entity	Concept Name	Expiration Date
1	Pacific Gateway Concessions, LLC	City by the Bay; Simply Gourmet (T1) <i>Extended to maintain service while Terminal 1 is under construction.</i>	7/22/19
2	BARG (Host is 49% partner)	Gordon Biersch (T3) <i>Extended to maintain service while the Terminal 3 West renovation is planned.</i>	No later then 12/31/20
3	Host International, Inc.	Bay Area Bistrot (T1) <i>Opening date 3/24/20.</i>	3/23/30