

1 [Lease Amendment - DFS Group, L.P. - The International Terminal Duty Free and Luxury
2 Lease - Modify and Extend a Reduced Percentage Rent Structure to December 31, 2026 -
3 Establish a Temporarily Reduced Minimum Annual Guarantee - \$30,000,000]

4 **Resolution approving Amendment No. 4 to the International Terminal Duty Free and**
5 **Luxury Store Lease No. 17-0303 between DFS Group, L.P. and the City and County of**
6 **San Francisco, acting by and through its Airport Commission, which continues the**
7 **temporary reduced Percentage Rent structure, but increases the percentage amount**
8 **to 36% of gross revenues, commencing with Lease Year 5 (2024) and continuing**
9 **through Lease Year 7 (2026), and establishing a temporarily reduced Minimum**
10 **Annual Guarantee of \$30,000,000 for Lease Year 5, adjusting annually in accordance**
11 **with the Lease through Lease Year 7, with the original Base Rent structure**
12 **recommencing in Lease Year 8 (2027), with each such rent accommodation being**
13 **conditioned upon Tenant’s timely completion of the construction of its remaining**
14 **facilities in Harvey Milk Terminal 1 no later than December 31, 2024, with no change**
15 **to the 14-year term, to be effective upon approval of this Resolution.**

16
17 WHEREAS, On December 5, 2017, by Resolution No. 17-0303, the Airport
18 Commission (Commission) awarded the International Terminal Duty Free and Luxury Lease
19 (Lease) to DFS Group, L.P. (Tenant); and

20 WHEREAS, On March 20, 2018, by Resolution No. 66-18, the Board of Supervisors
21 approved the Lease, a copy of which is on file with the Clerk of the Board in File No. 180079;
22 and

23 WHEREAS, On March 17, 2020, by Resolution No. 20-0051, the Commission
24 approved Amendment No. 1 to the Lease establishing the Base Rent as 33% of gross
25 revenues for Lease Year 1 which ends December 31, 2020; and

1 WHEREAS, On July 3, 2020, by Resolution No. 280-20, the Board of Supervisors
2 approved Amendment No. 1, a copy of which is on file with the Clerk of the Board in File
3 No. 200542; and

4 WHEREAS, On December 1, 2020, by Resolution No. 20-0222, the Commission
5 approved Amendment No. 2 to the Lease which continued the Percentage Rent structure of
6 33% of gross revenues due to the prolonged recovery from the COVID-19 pandemic; and

7 WHEREAS, On February 2, 2021, by Resolution No. 35-21, the Board of Supervisors
8 approved Amendment No. 2, a copy of which is on file with the Clerk of the Board in File No.
9 201348; and

10 WHEREAS, On October 6, 2020, by Resolution No. 20-0180, the Commission
11 approved Amendment No. 3 to the Lease when it adopted the COVID-19 Emergency Rent
12 Relief Program which provided MAG rent relief to most Airport concession tenants for April
13 and May 2020; and

14 WHEREAS, On January 5, 2021, by Ordinance No. 5-21, the Board of Supervisors
15 approved Amendment No. 3, a copy of which is on file with the Clerk of the Board in File
16 No. 201278; and

17 WHEREAS, The full recovery of international passenger traffic is presently anticipated
18 to take three or five more years from now, and sales for Tenant during Lease Years 5 and 6
19 are expected to be below the Airport's forecast by an average of 58% due to the lingering
20 effects of the COVID-19 pandemic and continued depressed travel from the People's
21 Republic of China, which had previously accounted for more than 50% of total duty free sales;
22 and

23 WHEREAS, Reverting to the originally scheduled Percentage Rent structure will lead to
24 significant losses for Tenant and its five Airport Concessions Disadvantaged Business
25 Enterprise (ACDBE) joint venture partners; and

1 WHEREAS, Continuing a reduced Percentage Rent structure for Tenant is in the best
2 interest of the Airport in that it will help preserve the economic feasibility and continued
3 operations of duty-free offerings to travelers at SFO, which accounts for more revenue for the
4 Airport than all other retail leases combined; and

5 WHEREAS, On October 17, 2023, by Resolution No. 23-0256, the Commission
6 approved Amendment No. 4 to the Lease which continues the reduced Percentage Rent
7 structure, but increases the Percentage Rent amount to 36% of gross revenues, commencing
8 with Lease Year 5 (2024) and continuing through Lease Year 7 (2026), and establishes a
9 temporarily reduced Minimum Annual Guarantee of \$30,000,000 for Lease Year 5, adjusting
10 annually in accordance with the Lease through Lease Year 7, with the original Base Rent
11 structure recommencing in Lease Year 8 (2027), with each such rent accommodation being
12 conditioned upon Tenant's timely completion of the construction of its remaining facilities in
13 Harvey Milk Terminal 1 no later than December 31, 2024 (based on current base building
14 construction schedule); now, therefore, be it

15 RESOLVED, That the Board of Supervisors approves Amendment No. 4 to the Lease,
16 a copy of which is on file with the Clerk of the Board of Supervisors in File No. 231153; and,
17 be it

18 FURTHER RESOLVED, That within thirty (30) days of the amendment being fully
19 executed by all parties, the Airport Commission shall provide the final amendment to the Clerk
20 of the Board for inclusion into the official file.

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