

AIRPORT COMMISSION
CITY AND COUNTY OF SAN FRANCISCO
RESOLUTION NO. 23-0256

APPROVAL OF AMENDMENT NO. 4 TO THE INTERNATIONAL TERMINAL DUTY FREE AND LUXURY STORES LEASE NO. 17-0303 WITH DFS GROUP, L.P.

- WHEREAS, on December 5, 2017, by Resolution No. 17-0303, the Commission awarded the International Terminal Duty Free and Luxury Stores Lease No. 17-0303 (Lease) to DFS Group, L.P. (Tenant) to operate duty free and luxury stores in the International Terminal and Harvey Milk Terminal 1 for a term of 14 years expiring March 31, 2034; and
- WHEREAS, Tenant consists of a joint venture partnership between DFS Group L.P., with 75% ownership, and the following five small business partners, each with 5% ownership: Bay Cities Concessions, J.R. Lester & Associates, Marilla Chocolate Co., Skyline Concessions, Inc., and Skyview Concessions, Inc.; and
- WHEREAS, on March 17, 2020, by Resolution No. 20-0051, the Commission amended the Lease to temporarily reduce the Base Rent to a Percentage Rent Structure equal to 33% of gross revenues for Lease Year 1, which ended December 31, 2020; and
- WHEREAS, on December 1, 2020, by Resolution No. 20-0222, the Commission approved Amendment No. 2 to the Lease, which continued the temporary modification of the Percentage Rent structure through the earlier to occur of Lease Year 4, which ends December 31, 2023, or the reinstatement of the Minimum Annual Guarantee (MAG) upon a stabilization of enplanements; and
- WHEREAS, on October 6, 2020, by Resolution No. 20-0180, the Commission approved Amendment No. 3 to the Lease as part of the COVID-19 Emergency Rent Relief Program which provided MAG rent relief for most concession tenants for April and May 2020; and
- WHEREAS, the full recovery of international passenger traffic is presently anticipated to take three to five more years from now, and sales for Tenant during Lease Years 5 and 6 are expected to be below the Airport's forecast by an average of 58% due to the lingering effects of the COVID-19 pandemic and continued depressed travel from the People's Republic of China, which had previously accounted for more than 50% of total duty free sales; and
- WHEREAS, reverting to the originally scheduled Percentage Rent structure will lead to significant losses for Tenant and its five ACDBE joint venture partners; and

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

RESOLVED, that this Commission hereby approves Amendment No. 4 to the Lease, which continues the reduced Percentage Rent structure, but increases the Percentage Rent amount to 36% of gross revenues, commencing with Lease Year 5 (2024) and continuing through Lease Year 7 (2026), and establishes a temporarily reduced Minimum Annual Guarantee of \$30,000,000.00 for Lease Year 5, adjusting annually in accordance with the Lease through Lease Year 7, with the original Base Rent structure recommencing in Lease Year 8 (2027), with each such rent accommodation being conditioned upon Tenant's timely completion of the construction of its remaining facilities in Harvey Milk Terminal 1 no later than December 31, 2024 (based on current base building construction schedule); and, be it further

RESOLVED, that this Commission hereby directs the Commission Secretary to request approval of Amendment No. 4 from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

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I hereby certify that the foregoing resolution was adopted by the Airport Commission
at its meeting of **OCT 17 2023**


Secretary