



MEMORANDUM

April 7, 2026

TO: AIRPORT COMMISSION
Hon. Malcolm Yeung, President
Hon. Susan Leal, Vice President
Hon. Jose F. Almanza
Hon. Mark Buell
Hon. Nancy Tung

26-0077

APR 7 2026

FROM: Airport Director

SUBJECT: Approval of Lease Termination Agreement for the Harvey Milk Terminal 1 Food and Beverage Concession Lease 12, Lease No. 20-0042 with HFF SFO Two, LLC

DIRECTOR'S RECOMMENDATION: APPROVE THE LEASE TERMINATION AGREEMENT FOR THE HARVEY MILK TERMINAL 1 FOOD AND BEVERAGE CONCESSION LEASE 12, LEASE NO. 20-0042 WITH HFF SFO TWO, LLC, AND DIRECT THE DIRECTOR OF COMMISSION AFFAIRS TO SEEK APPROVAL OF THE AGREEMENT FROM THE BOARD OF SUPERVISORS PURSUANT TO SECTION 9.118 OF THE CHARTER OF THE CITY AND COUNTY OF SAN FRANCISCO.

Executive Summary

Staff seeks approval from the Airport Commission (Commission) to enter into a termination of lease agreement (Lease Termination Agreement) with HFF SFO Two, LLC (Tenant) for its Harvey Milk Terminal 1 (HMT1) Food and Beverage Lease 12, Lease No. 20-0042 (Lease). The premises under the Lease was to be developed into a Balboa Café, and would have been the last food and beverage location planned for HMT1. Tenant has completed design work but not commenced construction. Tenant has requested to surrender the Lease as the business deal no longer appears financially viable. Staff agrees and recommends consenting to the request, as doing so will provide the Airport with an opportunity to re-lease the premises for a higher and better use to better serve the traveling public.

Background

On March 17, 2020, by Resolution No. 20-0042, the Commission awarded the Lease to Tenant. The term of the Lease was twelve years with a Minimum Annual Guarantee (MAG) of \$545,000 and Percentage Rent was tiered between 8% and 12% of Gross Revenues.

THIS PRINT COVERS CALENDAR ITEM NO. 11

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

DANIEL LURIE MAYOR MALCOLM YEUNG PRESIDENT SUSAN LEAL VICE PRESIDENT JOSE F. ALMANZA MARK BUELL NANCY TUNG MIKE NAKORNKHET AIRPORT DIRECTOR

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Tenant won the Lease based on its proposal to construct and operate a Balboa Café in the premises. Design was completed, but construction has not yet commenced. While the Lease was awarded in 2020, Balboa Café was to be the last food and beverage location to open in HMT1 due in part to phasing considerations and full passenger projections being met. In the time between when the proposal was developed and submitted (January 2020) and the present, construction costs have escalated approximately 20% and labor costs 10-15%. It is the viewpoint of Tenant and Airport staff that the business deal is no longer viable. Additionally, Staff believes that HMT1 has an adequate amount of food and beverage square footage without the addition of Balboa Café. With the construction and labor costs borne by the other food and beverage concessionaires and fewer passengers than planned, due to the Southwest Airlines move to Terminal 2 and Alaska Airlines concentrating growth in other West Coast cities, it is also undesirable to add another restaurant in HMT1 at this time. Staff believes that recapturing the premises will provide the Airport with an opportunity to re-lease the premises for a higher and better use to better serve the traveling public.


Proposal

Staff recommends that the Commission approve the Lease Termination Agreement with Tenant under which Tenant surrenders the Lease and loses any costs it incurred with the design work. In exchange for the mutually agreeable surrender, the Airport will not assess an early termination fee. Staff will return to the Commission in the coming months seeking approval to issue a Request for Proposals for the premises, likely for use as a specialty retail location.

Recommendation

I recommend the Commission adopt the attached resolution approving the Lease Termination Agreement for the Harvey Milk Terminal 1 Food and Beverage Lease 12, Lease No. 20-0042 with HFF SFO Two, LLC, and directing the Director of Commission Affairs to seek approval of the agreement from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

Sincerely,

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Mike Nakornkhet
Airport Director

Prepared by: Kevin Bumen
Chief Commercial Officer

Attachments

Attachment

Harvey Milk Terminal 1 Food Beverage Concession Lease 12, Lease No. 20-0042 with HFF SFO Two, LLC

