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AIRPORT COMMISSION

CITY AND COUNTY OF SAN FRANCISCO

RESOLUTION NO. 26-0137

APPROVAL OF AMENDMENT NO. 3 TO THE TERMINAL 1 RETAIL CONCESSION LEASE 5, LEASE NO. 18-0206 WITH THE MARSHALL RETAIL GROUP, LLC

WHEREAS, on July 10, 2018, by Resolution No. 18-0206, the Airport Commission (Commission) awarded the Terminal 1 Retail Concession Lease 5 (Lease) to The Marshall Retail Group, LLC (Tenant); and

WHEREAS, the Lease was awarded with a base term of 10 years; and

WHEREAS, on October 6, 2020, by Resolution No. 20-0180, the Commission authorized the COVID-19 Emergency Rent Relief Program, which waived certain rent and fees and was memorialized in Amendment No. 1 to the Lease; and

WHEREAS, on January 5, 2021, by Ordinance No. 5-21, the San Francisco Board of Supervisors (Board of Supervisors) approved Amendment No.1 to the Lease; and

WHEREAS, on September 5, 2023, by Resolution No. 23-0224, the Commission authorized the COVID-19 Lease Extension Program, which offered Tenant a three-year and two-month lease extension for a new Expiration Date of August 31, 2037 and was memorialized in Amendment No. 2 to the Lease; and

WHEREAS, on April 2, 2024, by Resolution No. 157-24, the Board of Supervisors approved Amendment No. 2 to the Lease; and

WHEREAS, Staff has determined that the development costs exceeded supportable underwriting standards related to sales projections, rent structure, and the term of the Lease; and

WHEREAS, Staff proposes extending the Lease by two years to improve the financial health of the Lease by allowing for a longer development cost amortization period; and

WHEREAS, Tenant has agreed to enter into an amendment to extend the term of the Lease; now, therefore, be it

RESOLVED, that this Commission hereby approves Amendment No. 3 to the Lease with The Marshall Retail Group, LLC, extending the base operating term of the Lease to August 31, 2039; and, be it further

RESOLVED, that this Commission hereby directs the Director of Commission Affairs to request approval of Amendment No. 3 to the Lease from the Board of Supervisors pursuant to Section 9.118 of the Charter of the City & County of San Francisco.

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

JUN 2 2026

Director of Commission Affairs

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SAN FRANCISCO INTERNATIONAL AIRPORT

MEMORANDUM
June 2, 2026

26-0136
THROUGH
26-0145

JUN 2 2026

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

FROM: Airport Director

SUBJECT: Lease Extensions for Concession Leases with Development Costs Exceeding Supportable Investment Amounts

DIRECTOR'S RECOMMENDATION: APPROVE LEASE EXTENSIONS OF TWO YEARS FOR 10 CONCESSION LEASES THAT HAVE COMMENCED SINCE FEBRUARY 1, 2017, WHICH HAVE DEVELOPMENT COSTS EXCEEDING THE SUPPORTABLE INVESTMENT AMOUNT.

Executive Summary

In September 2019, the Airport Commission (Commission) approved two-year lease extensions for 30 food and beverage and retail leases whose development costs exceeded the projections upon which the business deals were underwritten. At that time, an additional 26 food and beverage and retail leases, whose business deals were crafted assuming similar cost structures, were in various stages of leasing, design or construction. Staff has reviewed development cost documentation for those remaining 26 leases and found that 10 meet the metrics used for pursuing two-year lease extensions to allow for longer amortization periods for development costs. Staff is recommending one 2-year lease extension for 10 food and beverage and retail leases, which were constructed between 2017 and 2021, and had higher-than-manageable development costs.

Background

Between 2015 and 2019, 67 food and beverage and retail leases were awarded. The last premises in all of those leases opened in 2024, and Staff has reviewed all submitted development costs. Prior to the leasing efforts for each location, Staff estimates sales, rent, and construction costs. For some leases, Staff creates projected profit and loss statements that include cost of goods sold and labor, among other expenses. All of these estimates inform decisions regarding the bundling of leases and the length of lease terms.

The business deals were crafted projecting, among other things, that development costs would not exceed $1,300 per square foot for food and beverage locations and $900 for retail locations (Supportable Investment Amount). These metrics were thought to be conservative when Staff created them. Each business deal is unique; however, Staff has determined that any development costs above these metrics render the business deals fragile at best, but in many cases, unsupportable.

THIS PRINT COVERS CALENDAR ITEM NO. 7

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Undue pressure on a concessionaire's profit and loss statement can result in cost savings measures that are undesirable from the Airport's standpoint, such as reducing staffing and maintaining fewer products on shelves. In an extreme example, a tenant will request a renegotiation, an assignment, or an early termination of the lease. All of our concession locations are necessary to provide the level of customer service that our guests expect, and keeping each of them operating at an optimal level is key to that goal. Additionally, we view our concession tenants and their joint venture partners as our business partners. We are committed to providing them with sustainable opportunities.

Among the first 41 leases to commence, it was determined that 30 had development costs that exceeded the Supportable Investment Amount. Those tenants were given one 2-year lease extensions to offset the impact. In September 2019, when the lease extensions were sought, Staff committed to seeking the same two-year lease extensions for the remaining group of 26 leases if their development costs were deemed excessive. Staff is now recommending one 2-year lease extensions for 10 of the remaining 26 commenced leases that were awarded between 2015 and 2019, when a sharp upturn in construction costs took place. These extensions will allow longer amortization periods for development costs. Very little leasing occurred during the pandemic, and we have since adjusted our business terms to appropriately respond to current costs.

Attachment A is a list of the 10 leases for which a lease extension is sought.

Proposal

Staff is recommending one 2-year lease term extension to the base operating term of each Lease as a revenue-neutral solution to ease financial pressure for 10 tenants who have opened a new location since January 1, 2017, and whose development costs exceed the Supportable Investment Amount. As the lease extension will be to the base operating term, any option terms in favor of the Commission will be unaffected and remain in effect.

Recommendation

I recommend the Commission (1) adopt the accompanying resolutions approving lease amendments for 10 leases for concessions that became operational between February 1, 2017 and February 1, 2022 and where the tenant incurred development costs exceeding the Supportable Investment Amount as determined by Airport staff, and (2) to direct the Director of Commission Affairs to request the approval of the lease amendments from the San Francisco Board of Supervisors pursuant to Section 9.118 of the Charter of the City and County of San Francisco.

Sincerely,

DocuSigned by:
Mike Nakornkhet
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Mike Nakornkhet
Airport Director

Prepared by: Kevin Bumen
Chief Commercial Officer

Attachments

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Attachment A

List of Leases with Development Costs Exceeding Supportable Investment Amounts

	Location, Tenant Entity, Doing Business As Name	Lease No.	Base Term
1	Harvey Milk Terminal 1 Lady Luck Gourmet, LLC Concept: Mama Go's	18-0215	10 years + one 2-year option
2	Harvey Milk Terminal 1 The Marshall Retail Group, LLC Concept: Departures	18-0206	10 years
3	Harvey Milk Terminal 1 L'Occitane Airport Venture, LLC Concept: L'Occitane	18-0205	7 years + two 1-year options
4	Harvey Milk Terminal 1, Boarding Area C The Marshall Retail Group, LLC Concept: The Scoop	18-0368	7 years + two 1-year options
5	Terminal 3 Rylo Management, LLC Concept: Farley's Community Café	19-0054	10 years
6	Terminal 3 AirSun JV dba Sunglass Hut Concept: Sunglass Hut	18-0233	7 years
7	Harvey Milk Terminal 1, Boarding Area C Park Café Group, Inc. Concept: Dolores Park Café	19-0244	10 years
8	Terminal 3 Sidewalk Juice SFO, LLC Concept: Sidewalk Juice	19-0245	10 years
9	Dianne Feinstein International Terminal High Flying Foods SFO, LLC Concept: Gotts Roadside	16-0013	10 years + two 1-year options
10	Dianne Feinstein International Terminal Andalé Management Group, Inc. Concept: Valencia Street Station	16-0012	10 years + two 1-year options