



San Francisco International Airport

MEMORANDUM

September 15, 2020

TO: AIRPORT COMMISSION  
Hon. Larry Mazzola, President  
Hon. Eleanor Johns, Vice President  
Hon. Richard J. Guggenlime  
Hon. Everett A. Hewlett, Jr.  
Hon. Malcolm Yeung

20-0156  
SEP 15 2020

FROM: Airport Director

SUBJECT: Award of the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease to MRG San Francisco Terminal 2, LLC

DIRECTOR'S RECOMMENDATION: (1) AWARD THE TERMINAL 2 RETAIL MARKET AND HARVEY MILK TERMINAL 1 SPECIALTY RETAIL STORES CONCESSION LEASE TO MRG SAN FRANCISCO TERMINAL 2, LLC; AND (2) DIRECT THE COMMISSION SECRETARY TO REQUEST APPROVAL OF THE LEASE FROM THE BOARD OF SUPERVISORS.

Executive Summary

The competitive proposal evaluation process for the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease (Lease) has concluded and Staff recommends awarding the Lease to MRG San Francisco Terminal 2, LLC.

Background

On September 10, 2019, by Resolution No. 19-0227, the Airport Commission (Commission) authorized Staff to commence a Request for Proposals (RFP) process for the Lease.

On October 3, 2019, Airport staff conducted an informational conference for interested parties (Interested Parties), during which Staff solicited comments on the RFP documents (the Proposal Documents). Twenty-one Interested Parties attended the conference. Based on the comments, Staff decided to reconfigure the Terminal 2 Retail Market space to better address the needs of a retail concession, resulting in a 19% square footage reduction from 8,567 square feet to 6,915 square feet, and reduce the Minimum Annual Guarantee offer amount from \$1,000,000.00 to \$900,000.00 to reflect the changes in square footage.

On December 3, 2019, by Resolution No. 19-0290, the Commission approved the revised lease specifications and proposal requirements and authorized Staff to accept proposals. In response to the RFP, the Airport received three proposals by the February 5, 2020 Submittal Deadline. Staff determined that two of the proposals qualified for scoring and convened a three-member evaluation panel to review and score the proposals. The panel consisted of the following: an SFO Airport Duty Manager, a private sector architect, and the Director of Concessions at Los Angeles International Airport.

The evaluation panel selected MRG San Francisco Terminal 2, LLC as the highest-ranking, responsive, and responsible proposer for this Lease. The proposers for this Lease, along with their proposed concepts, are as follows:

THIS PRINT COVERS CALENDAR ITEM NO. 4

AIRPORT COMMISSION CITY AND COUNTY OF SAN FRANCISCO

LONDON N. BREED MAYOR    LARRY MAZZOLA PRESIDENT    ELEANOR JOHNS VICE PRESIDENT    RICHARD J. GUGGENHIME    EVERETT A. HEWLETT, JR.    MALCOLM YEUNG    IVAR C. SATERO AIRPORT DIRECTOR

PROPOSER	CONCEPTS	Score
<p><u>Highest Ranking:</u> MRG San Francisco Terminal 2, LLC</p>	<p><i>T2 Retail Market:</i></p> <ul style="list-style-type: none"> <li>• 16<sup>th</sup> &amp; Dolores General Store</li> </ul> <p><i>HMT1 Specialty Retail A:</i></p> <ul style="list-style-type: none"> <li>• Fireworks</li> </ul> <p><i>HMT1 Specialty Retail B:</i></p> <ul style="list-style-type: none"> <li>• Beauty Hub SFO</li> </ul>	<p>90.67</p>
<p>HG SFO Retailers 2017 JV</p>	<p><i>T2 Retail Market:</i></p> <ul style="list-style-type: none"> <li>• 49 Mile Market</li> </ul> <p><i>HMT1 Specialty Retail A:</i></p> <ul style="list-style-type: none"> <li>• Ellia Wellness OR</li> <li>• San Francisco Beauty Destination</li> </ul> <p><i>HMT1 Specialty Retail B:</i></p> <ul style="list-style-type: none"> <li>• Herschel Supply Company &amp; Stance</li> </ul>	<p>85.36</p>

The Minimum Annual Guarantee (MAG) for the first lease year is \$2,300,000.00. Base rent is the greater of the MAG (adjusted annually) or the following tiered percentage rent: 12% of Gross Revenues achieved up to and including \$2,500,000.00; plus 14% of Gross Revenues achieved from \$2,500,000.01 up to and including \$5,000,000.00, plus 16% of Gross Revenues achieved over \$5,000,000.00. The lease term is 12 years.

The Marshall Retail Group, which proposed for this lease as MRG San Francisco Terminal 2, LLC, has partnered with Marilla Chocolate Company, Inc. and Skyline Concessions, Inc., both locally-based Airport Certified Disadvantaged Business Enterprises (ACDBE) and each with 7.5% ownership.

It is not envisioned that a modification to the Lease will be sought due to the pandemic. The Airport has the authority to delay the turnover of space for construction and it is likely these stores will not open until later next year or early in 2022. Additionally, the Lease includes language which suspends the Minimum Annual Guarantee while enplanements are down 20% or more for multiple months.

**Recommendation**

I recommend the Commission: (1) award the Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease to MRG San Francisco Terminal 2, LLC; and (2) direct the Commission Secretary to request approval of the Lease from the Board of Supervisors.



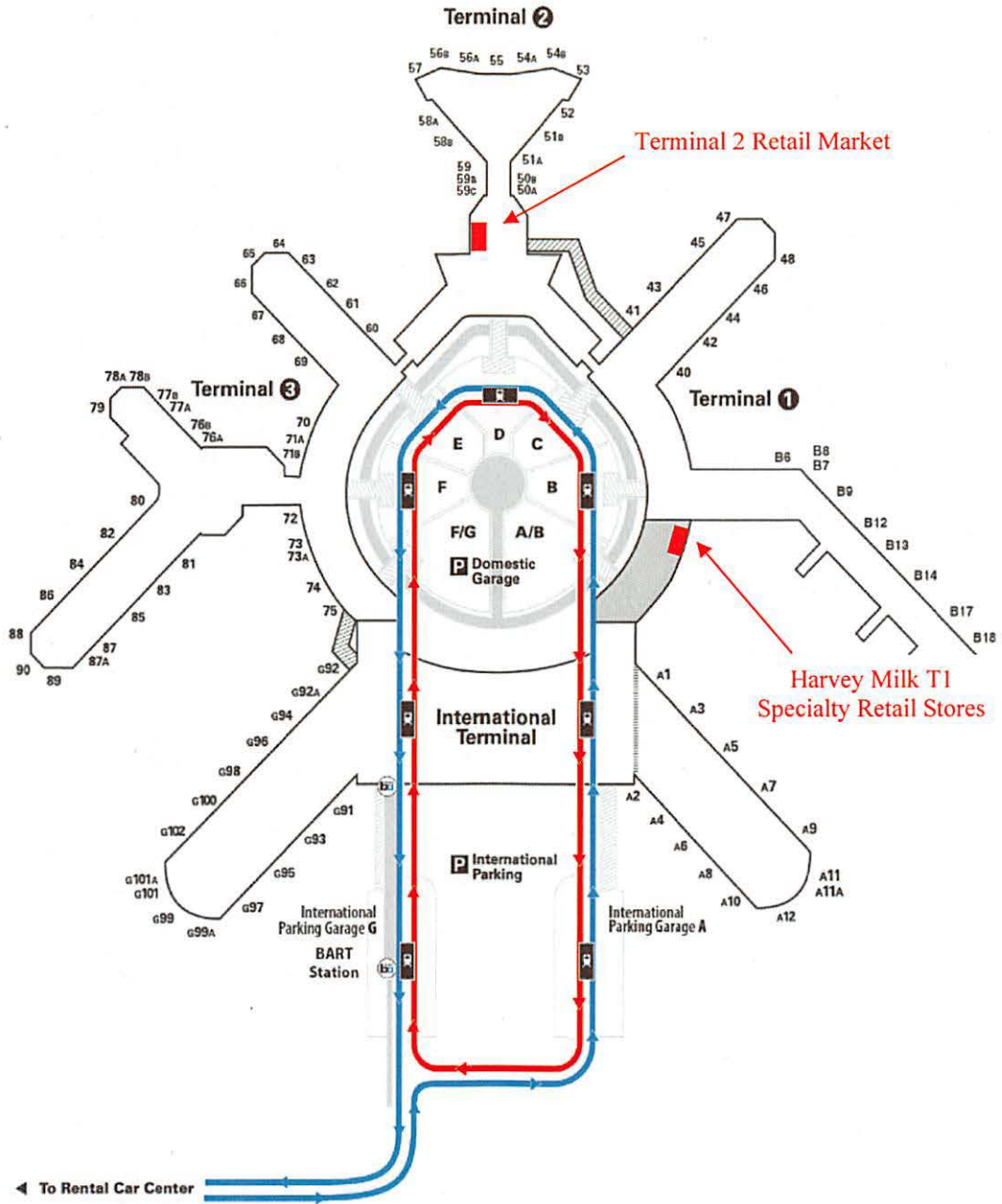
Ivar C. Satero  
Airport Director


Prepared by: Cheryl Nashir  
Acting Chief Commercial Officer

Attachments

# Exhibit A

## Terminal 2 Retail Market and Harvey Milk Terminal 1 Specialty Retail Stores Concession Lease



 - Lease Locations