



MEMORANDUM

December 15, 2020

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DEC 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

FROM: Airport Director

SUBJECT: Approval of Lease Amendments to Extend the Terms of One Business Service Lease and Five Retail Leases Negatively Impacted by the COVID-19 Pandemic

DIRECTOR'S RECOMMENDATION: APPROVE AMENDMENTS TO THE FOLLOWING SIX LEASES NEGATIVELY IMPACTED BY THE PANDEMIC AND NEARING EXPIRATION, EXTENDING THE TERMS THROUGH JUNE 30, 2023 OR EARLIER WITH SIX MONTHS' ADVANCE NOTICE, AND DIRECT THE COMMISSION SECRETARY TO FORWARD THE LEASE AMENDMENTS TO THE BOARD OF SUPERVISORS FOR APPROVAL: (1) AIRPORT AMENITIES AND BUSINESS SERVICES LEASE NO. 13-0202 WITH AIRPORT TRAVEL AGENCY, INC. (AIRPORT TRAVEL AGENCY); (2) BOARDING AREA F SPECIALTY STORE LEASE NO. 12-0086 WITH STELLAR PARTNERS, INC. (GREETINGS FROM SAN FRANCISCO); (3) BOARDING AREA E NEWSSTAND, A SMALL BUSINESS ENTERPRISE SET-ASIDE, LEASE NO. 13-0136 WITH SKYLINE CONCESSIONS, INC. (SKYLINE NEWS & GIFT); (4) TERMINAL 3 BOARDING AREA F GOURMET FOOD AND GIFT STORE LEASE NO. 10-0309 WITH MARILLA CHOCOLATE COMPANY, INC. (CALIFORNIA LIFESTYLE); (5) TERMINAL 2 NEWSSTANDS, COFFEE AND SPECIALTY STORES LEASE NO. 10-0232 WITH WORLD DUTY FREE GROUP NORTH AMERICA, LLP (STARBUCKS, M. FREDRIC, KIEHL'S, SUNSET NEWS, AND SF NEWS EXPRESS), AND (6) INTERNATIONAL TERMINAL MUSEUM/ GALLERY STORE LEASE NO. 10-0287 WITH SAN FRANCISCO MUSEUM OF MODERN ART (SFMOMA).

Executive Summary

One business service lease and five retail leases at the Airport are nearing the expiration of their terms, ranging from December 31, 2020 to May 31, 2021. Due to the COVID-19 pandemic and the severe downturn in enplanements and concession sales, Staff has determined that it would not be prudent to initiate competitive processes for replacing these tenants at this time, and recommends extending the terms of the six leases through June 30, 2023 with the condition that the Airport Director, at his sole and absolute discretion, may terminate earlier by providing six months' advance written notice to the tenants. Each tenant for which a lease extension is sought

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

hereunder is also participating in the Covid-19 Emergency Rent Relief Program. That program, which is still in the Board of Supervisors' approval process, included rent and fee waivers and a requirement to expend a certain amount of the relief on payroll expense before August 31, 2021. The Covid-19 Emergency Rent Relief Program did not include lease extensions.

Background

Due to the severe disruption to the global aviation industry caused by the COVID-19 pandemic, Airport staff has determined it would not be prudent to begin Request for Proposals processes for the following six leases (collectively, the Leases) that are nearing their expiration dates:

(1) Airport Amenities and Business Services Lease No. 13-0202 (Airport Travel Agency)

On September 17, 2013, by Resolution No. 13-0202, the Commission awarded the Airport Amenities and Business Services Lease to Airport Travel Agency, Inc. for a term of seven years. On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 1 to the Lease. The Lease expires on December 31, 2020.

(2) Boarding Area F Specialty Store Lease No. 12-0086 (Greetings from San Francisco)

On April 17, 2012, by Resolution No. 12-0086, the Commission awarded the Boarding Area F Specialty Store Lease to Avila Retail Development and Management, LLC (Avila) for a term of seven years, which expired on December 31, 2019. On August 7, 2018, by Resolution No. 18-0257, the Commission approved assignment of the Lease from Avila to Stellar Partners, Inc. (Stellar). On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 1 to the Lease. Stellar is currently operating under a month-to-month holdover tenancy.

(3) Boarding Area E Newsstand, A Small Business Enterprise Set-Aside, Lease No. 13-0136 (Skyline News & Gift)

On June 11, 2013, by Resolution No. 13-0136, the Commission awarded the Boarding Area E Newsstand Lease, A Small Business Enterprise Set-Aside, to Skyline Concessions, Inc. (Skyline) for a term of seven years. On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 1 to the Lease. The Lease expires on January 27, 2021.

(4) Terminal 3 Boarding Area F Gourmet Food and Gift Store Lease No. 10-0309 (California Lifestyle)

On October 5, 2010, by Resolution No. 10-0309, the Commission awarded the Terminal 3 Boarding Area F Gourmet Food and Gift Store Lease to Marilla Chocolate Company, Inc. (Marilla) for a term of seven years, which expired on April 30, 2018. Marilla then operated under a month-to-month holdover tenancy. On March 5, 2019, by Resolution No. 19-0044, the Commission approved Amendment No. 1 extending the term to December 31, 2019.

On December 3, 2019, by Resolution No. 19-0306, the Commission approved Amendment No. 2 to the Lease extending the term to May 31, 2020. Amendment Nos. 1 and 2 were issued due to the Terminal 3 West construction project, which impacted California Lifestyle. On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 3 to the Lease.

Due to public health orders, Marilla was required to be closed for the last 75 days of the Lease. The Airport is currently allowing Marilla to operate those final 75 days for an adjusted expiration date of January 31, 2021, notwithstanding Amendment No. 3 contemplated hereunder.

- (5) Terminal 2 Newsstands, Coffee and Specialty Stores Lease No. 10-0232 (Starbucks, M. Fredric, Kiehl's, Sunset News, and SF News Express)

On July 6, 2010, by Resolution No. 10-0232, the Commission awarded the Terminal 2 Newsstands, Coffee and Specialty Stores Lease to Host International Inc. (Host) for a term of ten years. On December 6, 2011, by Resolution No. 11-0296, the Commission approved Amendment No. 1 to the Lease, which modified the definition of Lease Year under Lease Section 4. On November 20, 2012, by Resolution No. 12-0263A, the Commission approved assignment of the Lease from Host to World Duty Free Group North America, LLP (WDFG). On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 2 to the Lease. The Lease expires on April 30, 2021.

- (6) International Terminal Museum/Gallery Store Lease No. 10-0287 (SFMOMA)

On September 7, 2010, by Resolution No. 10-0287, the Commission awarded the International Terminal Museum/Gallery Store Lease to San Francisco Museum of Modern Art (SFMOMA) for a term of ten years. On October 6, 2020, by Resolution No. 20-0180, the Commission adopted the COVID-19 Emergency Rent Relief Program for Airport Concession Tenants, which will be memorialized in Amendment No. 1 to the Lease. The Lease expires on May 31, 2021.

Proposal

To avoid losing concession tenants during the pandemic-caused downturn, preserve customer service, and maintain revenue, Staff proposes extending the terms of the Leases, for a new expiration date of June 30, 2023, with the condition that the Airport Director, at his sole and absolute discretion, may terminate the term earlier by providing six months' advance written notice. Retaining this right to an earlier termination date builds in flexibility should airline traffic recover quicker than forecasted and the prospects for one or more strong competitive processes improves.

Recommendation

I recommend the Commission adopt the accompanying resolutions approving the amendments to the one business service lease and five retail leases, extending the terms to June 30, 2023 with a condition that the Airport Director may terminate earlier by providing six months' advance written notice. I further recommend the Commission Secretary forward these lease amendments to the Board of Supervisors for approval pursuant to Section 9.118 of the Charter of the City and County of San Francisco.



Ivar C. Satero
Airport Director

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Chief Commercial Officer

Attachments

Attachment 1

