

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	6c
Date of Meeting	February 4, 2014

DATE: January 24, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna R. Zachrisson, Manager, Concessions Business
SUBJECT: Amendment of Lease & Concession Agreement (Premises Notice) for Airport Management Services LLC dba Hudson

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to amend the Lease and Concession Agreement of Airport Management Services LLC (dba Hudson Group), substantially as drafted in Exhibit A, to remove two news/gift locations from the lease premises at Seattle-Tacoma International Airport. The Commission addressed this matter in December 2011, and this authorization fulfills the intent of that initial action.

SYNOPSIS

This request amends the Airport's lease and concession agreement with Airport Management Services LLC dba Hudson to remove two locations previously agreed upon by both parties. In 2011, Hudson, an Airport Concessions Disadvantaged Business Enterprise (ACDBE) joint venture, assumed the operation of a 3,400 sq. ft. retail location (Exhibit B: CT-10) in the Airport's Central Terminal. The space had been occupied by Borders Books until that company's liquidation closure on August 6, 2011. Although staff attempted to recruit a new, preferably local, bookstore for the space, the effort failed to attract a viable operator. As an alternative option, staff negotiated a lease for a new Hudson convenience retail concept to be introduced in Seattle for the U.S. airport market (formerly known as Hudson News). Commission approved the lease and concessions agreement on December 3, 2011. As part of the negotiation with Hudson to assume this space, the company agreed to return two other retail locations, at no cost to the Port, for re-lease as small business opportunities. The return of these units was outlined in the 2011 lease approval. This request concludes the process with the removal of these units from the Hudson premises.

BACKGROUND

The liquidation and closure of Borders Books' locations nationwide in the summer of 2011 transpired very quickly. The Airport location, on the northern flank of the Central Terminal, was the largest specialty retail space in the main terminal. Staff acted quickly to acquire the lease from the bankruptcy assets, and issued a Request for Interest (RFI) in order to re-lease the space to a local bookstore. However, the book retailing business was already struggling with increased

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competition from electronic media, and there was no interest in expansion at the Airport among local bookstores.

Hudson's new convenience retail concept – introduced in Seattle as the first in the country – combined 'grab-n-go' foods, a wide variety of drugstore items and travel accessories with traditional periodicals and books. The new concept opened after renovations were completed in April 2013. Hudson invested \$1.2 million in the re-concept of the space, and since opening has generated sales consistent with the pro forma estimate of \$500,000 in monthly gross sales. This sales level greatly exceeds the average sales generated by Borders Books in that same space.

Prior to assuming the Borders Books space, Hudson operated 16 news and gift locations in the Airport, as well as two Alki Bakery cafés and four specialty retail locations. As a condition for assuming this key Airport location, Hudson agreed to return two other nearby retail units to the Port in such a condition that would allow new small businesses to move into and operate the spaces with little investment. Staff is planning the length of these small business tenancies in order to 1) dovetail with the overall re-development of restaurant and retail locations; 2) recover modest investment, and 3) provide sufficient time to evaluate interest in competing for long-term leases at the Airport.

Airport staff held an outreach session in May 2013 to promote upcoming dining and retail lease opportunities. At that time, staff solicited applications from specialty retailers for future opportunities. The two retailers selected for the short-term operation of these locations were the only businesses interested in a short-term operation at the Airport. Short-term tenancy for these spaces offers advantages both to the Port and to the selected operators. For the tenant, it allows the opportunity to gain experience of retail operations in an airport environment without the investment risk of a typical 7-year retail term. For the Airport, it provides maximum flexibility for potential use improvements in the future program while maintaining a stream of revenue and consistent customer service. The traveling public also benefits from discovering a new local offering that is unexpected and unique for an airport.

The locations in detail:

Both locations are proposed to be operated by local small businesses.

1. News/Gift location BC-06: This 1,346 sq. ft. space is located just around the corner from the new Hudson location and offers a largely redundant product offering. The space is configured ideally for a new, short term retail tenant to make use of the existing fixtures (shelving, slat-walls), which Hudson will leave intact. The proposed short-term tenant for this space is Metsker Maps, a renowned 100-year old company with its main location at the Pike Place Market. The company plans to merchandise its namesake maps, but also a wide variety of travel and local history-related books, Puget Sound souvenirs, globes, and educational games and toys. Metsker Maps tenancy is anticipated to be approximately 1.5 years.

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2. Specialty Retail location CT-06: This 1,768 sq. ft. space is currently operated as “Discover Puget Sound” offering a variety of Puget Sound and Northwest souvenir merchandise. This is also an ideal location for a new, short-term retail concept that can take advantage of existing fixtures. The proposed short-term tenant is Sub Pop, famously known as a local music label and that has a successful track record of retail sales of music and music-related merchandise. Their retail concept includes music themed clothing, art posters, CDs and vinyl records. Sub Pop’s tenancy is anticipated to be approximately 1.5 years.

FINANCIAL IMPLICATIONS

In 2012, the news/gift BC-06 space generated \$1.1 million in gross sales. While sales have continued to be strong in 2013, the merchandise is redundant of that offered in the new, nearby Hudson location. The souvenir shop CT-06 generated \$1.5 million. It is possible that the new concepts will generate lower sales. However, the sales generated in these units, in combination with the increased sales generated in the new Hudson convenience store concept, will likely result in a net gain in sales from the previous levels generated in all three locations. The resulting concession rent to the Port will thus likely increase.

STRATEGIES AND OBJECTIVES

The Port’s activities are driven by an overarching vision contained in the Commission’s Century Agenda. In this roadmap, the Port has articulated a goal to become the ‘gateway of choice’ for air travelers. This action supports this vision by creating a diverse offering of products and services that meet the expectations of an increasingly sophisticated traveling public. Equally central to the Century Agenda, this action supports the growth of small businesses by providing an opportunity for two local, small businesses to try operations in the Airport, and determine by this experience if they would like to compete for future long-term lease opportunities.

The approval of this premises notice amendment meets the following strategic objectives of the Aviation Division:

- Maximizes financial performance by meeting customer demand
- Provides compelling customer and community value by bringing locally-owned and well-known brand concepts into the Airport
- Develops new business opportunities for experienced retailers to be successful in a new venue
- Provides additional opportunities for new employees and suppliers. Current Hudson employees in these locations will remain working in other Hudson locations at the Airport.

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ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Defer a decision on removing these locations from the current lease agreement premises.

The window of opportunity for a short-term small business trial tenancy is rapidly closing due to the planned re-development of all dining and retail locations in the Airport. The units will be competitively re-leased for a typical 7-year lease as part of that re-development. In order for the short-term leases to be fruitful as a trial tenancy, the proposed tenants must have at least 1.5 years in order to experience both slower and busier travel seasons. Roughly 30% of business is done in the summer months, and thus operation during the summers of 2014 and 2015 would provide the best prospects for success for new businesses. This is not the recommended alternative.

Alternative 2) – Continue to allow Airport Management Services LLC to operate these locations.

Continued operation would be inconsistent with the lease granted to Airport Management Services LLC dba Hudson for operation of the former Borders Books space in December 2011 which stipulated the return of the units specified in this amendment. The continued operation of these units by Hudson is redundant with the offerings now available in the former Borders location. In addition, Hudson operates a total of 23 units in the Airport. Creating more diversity of operators was another objective with the return of the two identified units. This is not the recommended alternative.

Alternative 3) – Remove the two identified locations from the premises notice of the Lease & Concession Agreement.

The locations were specified in the 2011 Commission lease approval as agreed between the Port and Airport Management Services LLC to be returned in order to create new small business leasing opportunities. Approval of this amendment will allow both small businesses to be open by April 1 for the spring and summer travel seasons. **This is the recommended alternative.**

ATTACHMENTS TO THIS REQUEST

- Exhibit A: Draft Lease and Concession Agreement
- Exhibit B: Map

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- December 6, 2011 – Commission approved a new seven year Lease and Concession Agreement with Airport Management Services LLC to operate a convenience retail store in the Airport's Central Terminal.