

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	<u>7a</u>
Date of Meeting	<u>May 27, 2014</u>

DATE: April 18, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna Zachrisson, Manager, Concessions Business
SUBJECT: Staff Briefing on the Airport Dining and Retail Master Plan for Seattle-Tacoma International Airport

SYNOPSIS

This briefing will provide an overview of the airport dining and retail master planning work-to-date. This master plan is a holistic planning process designed to ensure that the future dining and retail program offers the right products and services to the traveling public in the right locations by the highest quality operators. The master plan effort has been built on the foundations of the Port's Century Agenda, the Aviation Division Strategic Goals, and most specifically, the Commission's direction to staff in its "Commission Motion Concerning the Airport Concessions Program," which was approved on February 14, 2012.

A key component of this master plan, included in this briefing, is a proposed strategy for a phasing plan to manage the transition of the Airport's dining and retail program as current leases approach expiration. A phasing plan is the scheduling of how lease expirations and competition for new leases will be staggered in order to avoid negative impacts to customer service, airport operations, revenue generation and employment continuity. It allows the Port to better manage the program transition over the next several years and establish a sustainable schedule of lease renewals for future years in the program.

BACKGROUND

Planning Efforts to Date

The Airport's offering of restaurants and shops will soon be in transition as leases begin expiring in 2015-2017 for the vast majority of units airport-wide. Over the past three years, staff and its consultant team have been working on a dining and retail master plan for the purpose of planning the future passenger offering in light of facility changes, changes in passenger needs/desires as well as expected increased demand. The elements of the master plan that have been completed to date include: future demand projections, block planning of needed offerings throughout the facility (with the exception of the

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North and South Satellites), detailed unit planning and sales analysis as well as a forecast of potential future employment growth. The work is now moving toward development of phasing and leasing plans in order to address the upcoming major lease expirations.

Lease Phasing

The Airport currently has 60 units under lease agreements with large prime operators that expire in late 2016-early 2017. The large number of units with near simultaneous expiration dates is a consequence of the shift in the management model from a master concessionaire that took place in 2005. The former master concessionaire operated nearly all of the Airport's food service, retail, and duty free units from 1963 through 2004. At that time, the Airport instituted a hybrid leasing structure of large operators and direct leases with independent operators. Because nearly all leases after the master concessionaire were executed at the same time for similar lease term length, they are now also expiring nearly simultaneously.

The phasing plan is intended to address the problem of a large peak in expirations that was not considered as a future consequence when the program changed in 2005. During that transition, there were significant negative impacts and disruptions to customer service, facility operations, and revenue generation as the Airport struggled to manage the transition of the entire program at one time. In order to avoid these same negative impacts, the Port must stagger the cycle of terminations of large numbers of units at one time. An effective phasing plan is the means to accomplish this task over the long term.

Prime Concessionaire Negotiations

Development of a complete phasing plan requires that staff and its consultant team initiate negotiations with the large prime operators. Once a phasing plan for these units is determined, staff will be able to develop a leasing plan that outlines lease transition dates and a schedule for new competition for the entire program. The leasing plan as a sequential step after the completion of the phasing plan within the overall structure of the master plan is illustrated in Exhibit A. Staff hopes to bring the first adjustments to prime concessionaire leases to the Commission in mid-summer of 2014.

ATTACHMENTS TO THIS BRIEFING

- Exhibit A: Airport Dining and Retail Master Plan Pyramid
- Exhibit B: Power Point Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- March 27, 2012 – Briefing about Interim Concessions Leasing
- February 14, 2012 – Commission Motion Concerning the Airport Concessions Program
- December 13, 2011 – Aviation Concessions Program Principles and Practices
- July 26, 2011 – Procurement for Concessions Planning and Leasing Services
- September 11, 2012 – (Briefing) Airport Concessions Master Plan Update