

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
STAFF BRIEFING

Item No.	7e
Date of Meeting	September 30, 2014

DATE: September 25, 2014
TO: Tay Yoshitani, Chief Executive Officer
FROM: James R. Schone, Director, Aviation Business Development
Deanna Zachrisson, Business Leader, Airport Dining and Retail
SUBJECT: Airport Dining and Retail Program Drivers for Phasing Plan Decisions

SYNOPSIS

The Airport's offering of restaurants and shops will soon be in redevelopment as leases begin expiring in 2015 for the vast majority of units airport-wide. The Airport staff has been working to prepare for this redevelopment with its starting point in the Port's Century Agenda, the Aviation Division's strategic goals, as well as the specific guidance provided by the Commission in early 2012. In order to meet all of these directives, the Port must strategically plan the transition process, which will begin in 2015. This means that the Port must begin to stagger the cycle of unit transitions in order to avoid negative impacts to customer service and generation of non-aeronautical revenue. An effective phasing plan is the means to accomplish this staggering over the next number of years. In an effective and appropriately strategic manner, the following drivers will guide phasing plan decisions:

- 1) Meet passenger needs in every area of the airport
- 2) Maintain service during infrastructure and tenant unit construction
- 3) Execute future program with optimal mix of offerings in an effective use of space

On May 27, 2014, Airport staff presented the analysis and planning portions of the Airport Dining and Retail master plan. Staff also explained the near-term focus on the development of a phasing plan for the program transition. The purpose of this presentation is to explain the importance of the considerations above in making phasing decisions, by illustrating with specific examples among the program's current 92 operational locations.

BACKGROUND

Leases for 90 percent of the Airport's restaurant, retail and personal services locations will expire in 2015-2017. The Airport Dining and Retail program is key to the future goals of the Century Agenda and the Aviation Division's strategic goals. As envisioned in the Century Agenda, the Airport will become a gateway of choice for travelers and contribute to the creation of 100,000 new jobs. In the Aviation Division's strategic goals, the Airport Dining and Retail

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program supports the goal to become one of the top five North American airports in customer service as well as maximize non-aeronautical income.

The Airport Dining and Retail program:

- Generates nearly \$200 million in annual sales and supports more than 1,600 Airport jobs.
- Contributes \$40 million in Port revenue and is the second largest source of non-aeronautical revenue.

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 prime operators of multiple units 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.

While it is not a problem to open multiple businesses in an airport simultaneously, it is problematic to transition their leases simultaneously ten years later, due to the potential severe impacts to the ability to serve passenger demand. As a result, the phasing plan must result in some locations transitioning sooner than others and avoid transitions that may cause service disruptions during peak travel periods.

Over the past three years, Airport staff and its consultant team have been working on the analysis and planning portions of an Airport Dining and Retail master plan for the purpose of redeveloping the program to address passenger demand, maximize square footage and accommodate facility changes driven by terminal expansion. This planning has also taken into account the continued availability of food service and retail goods during the redevelopment timeframe when transitions and/or construction activity is underway.

DRIVERS OF PHASING PLAN DECISIONS

The relevant drivers of decisions regarding the phasing of existing locations center on the critical mission of the Airport to meet current and future passenger needs. The ability to meet passenger needs is also integral to the Port's ability to meet its objectives to generate non-aeronautical revenue, particularly during times of transition and construction activity.

1. Meet passenger needs in every area of the airport

One of the fundamental underpinnings of the dining and retail master plan is the analysis and forecast of future demand for the variety of products and services travelers expect in every area of the Airport. The demand analysis forecasts an optimum amount of supportable square footage in each category of offering, i.e. food service, convenience retail and services. Demand analyses are not necessarily static and must be periodically reviewed in light of changed operational

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conditions. However, the current baseline demand analysis is serving to inform where the Port should place offerings in order to meet passenger demand.

In recent years, new food service capacity has been added in Concourse B (McDonald's) and Concourse C (Beecher's) where unmet passenger need was proven by the generation of new incremental sales without any negative impacts to other operators. In some other areas of the terminal, there is a lack of sufficient food service. In other areas of the terminal, there is demand for specialty retail and passenger services where none exist. The overarching consideration when placing locations and concepts throughout the facility is matching passenger demand with capacity.

2. Maintain service during infrastructure and tenant unit construction

During the next few years, there will be an increase in construction activity in terminal, both infrastructure construction and tenant construction. Even Port capital projects, such as the Baggage Optimization Project will have an impact on dining and retail operations. Due to the risk of lost passenger service capacity as the result of construction, the Port must make phasing decisions based on the anticipated timeframes for construction activity. As an example, the Central Terminal offers travelers quick serve food choices in five locations on the south side of the atrium. The leases for all five locations expire on the same day, May 31, 2015. The Port would not be able to maintain adequate service if all five of these locations were transitioned at one time. Additionally, the Port would suffer a significant loss of revenue. As result, the Port must make decisions about a phased transition for these locations.

3. Execute future program with optimal mix of offerings in an effective use of space

The Airport's Dining and Retail program is very challenged for available square footage. Total Airport square footage is nearly 3.2 million square feet. Of this total square footage, dining, retail and passenger services occupy approximately 163,000 square feet of space for 92 locations in the main terminal and satellites. A shopping mall such as Seattle's Pacific Place has 335,000 square feet for 60 locations. Airport tenants do not pay rent based on the square footage they occupy, rather the amount of gross sales generated from a space.

Therefore, it is critical that the Port make decisions that maximize the productivity of every square foot in bringing passengers the optimal mix of food service, retail and passenger services. If a specific operation can generate the same amount of sales in a smaller footprint, then the Port must re-appropriate square footage to better meet passenger demand and in so doing maximize the use of the square footage. If available space in the terminal could be generating revenue, the Port should develop this square footage for revenue generation. In other instances, passenger demand cannot be satisfied with existing or currently configured square footage, which is an issue also necessary to address.

Additionally, the future dining and retail program is anticipated make changes in use in some areas of the terminal to improve the optimal mix of food service, convenience retail, specialty

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retail and passenger services to meet passenger demand. Phasing plan decisions can help facilitate the change of uses in an orchestrated fashion.

TOOLS TO EFFECTIVELY MANAGE TRANSITION

In a unit-by-unit perspective for current units, the phasing plan will lead to different transition timelines as a part of executing the overall transition. Based on the drivers outlined above, any particular unit may either be:

- 1) Returned early to the Port for redevelopment (prime operators)
- 2) Transitioned according to current lease expiration schedule
- 3) Included in a new lease in consideration of early returned units and additional investment (prime operators)
- 4) Extended operations under existing leases pending completion of construction and completed competitive processes

In accordance with the timetable presented on May 27, 2014, Airport staff plans to return to the Commission in the coming months to seek approval for the return of certain units from prime operators and new phasing leases for other units these operators occupy. This is a part of the phasing strategy designed to avoid so many units occupied by prime operators transitioning all at once. Airport staff will explain how the drivers above have been applied to these proposals.

ATTACHMENTS TO THIS REQUEST

- Exhibit A: PowerPoint Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- September 11, 2014 – Approval to Award a Lease and Concession Agreement for a Full-Service Restaurant in the Airport's South Satellite
- May 27, 2014 – Briefing about Airport Dining and Retail Master Plan
- September 11, 2012 – (Briefing) Airport Concessions Master Plan Update
- March 27, 2012 – Briefing about Interim Concessions Leasing
- February 14, 2012 – Commission Motion Concerning the Airport Concessions Program
- December 13, 2011 – Program Principles and Practices (Stakeholder Process) briefing
- January 28, 2003 – Approval of Lease and Concession Agreement with Anton Airfoods to operate an Anthony's Restaurant in the Central Terminal.