

Item Numbers: 6a 6b 6c EXHIBIT A

Date of Meeting: December 9, 2014

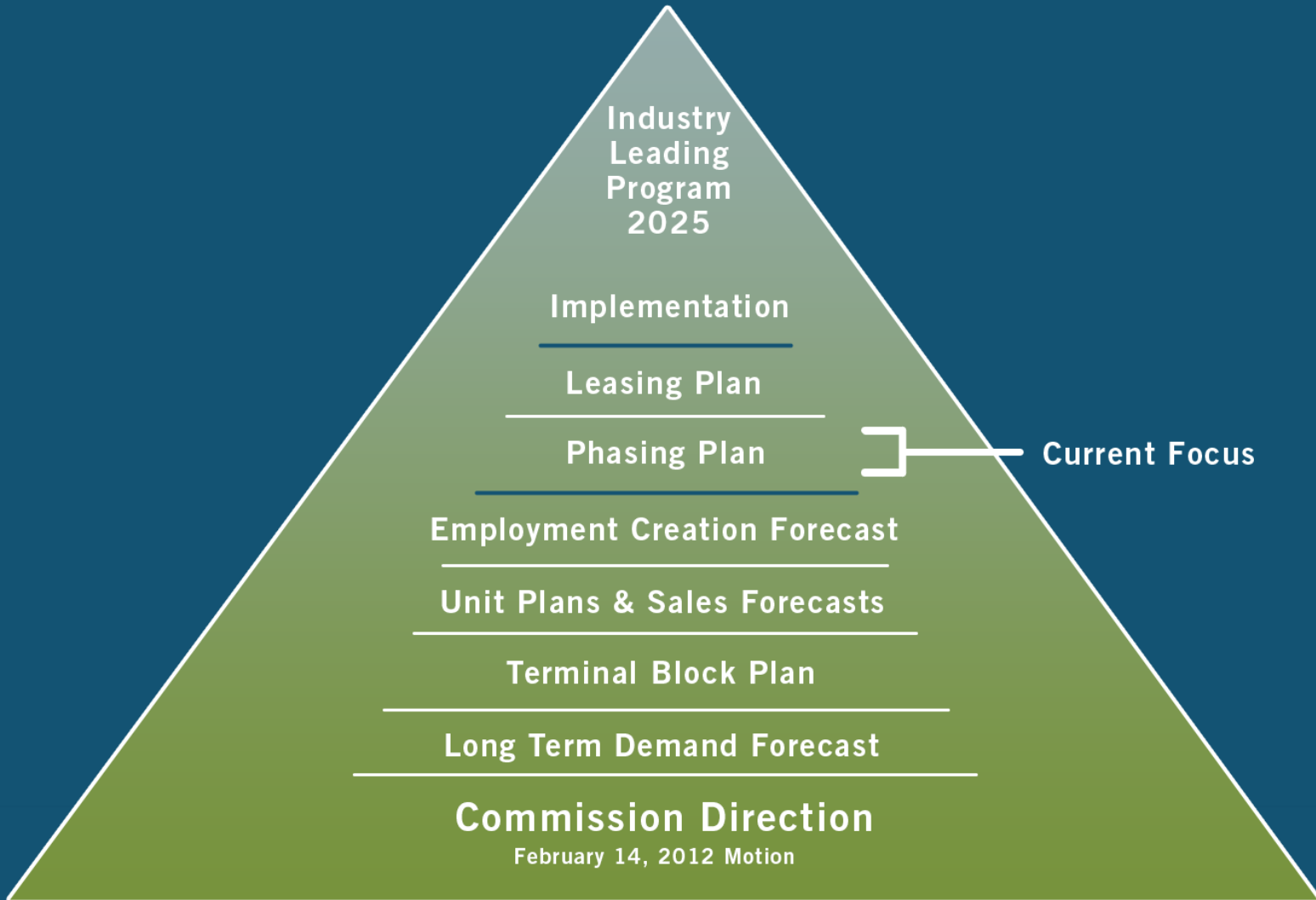
# *Airport Dining and Retail Program Authorization of Prime Lease Modifications*

ACTION ITEMS

November 25, 2014

Port   
of Seattle®

# Airport Dining & Retail Master Plan



# Anticipated Commission Actions

2014

Authorization of Lease  
S. Satellite Restaurant  
3<sup>rd</sup> Quarter

COMPLETED

Authorization of Design  
Phase I Infrastructure  
October 28

COMPLETED

Authorization of Prime  
Lease Modifications  
November 25

Review Leasing Plan  
and New RFP  
**January**

2015

Authorization of  
Construction Phase I  
Infrastructure  
1<sup>st</sup> Quarter

Authorization of Leases  
for Personal Services  
2<sup>nd</sup> Quarter

Authorization of Leases  
for Food & Beverage  
3<sup>rd</sup> Quarter

Authorization of Leases  
for Specialty Retail  
4<sup>th</sup> Quarter

# Phasing Plan: Groundwork for New Opportunities

Following finalization of transition phasing, the leasing plan will consist of packages for every existing and new location:

- Number of units and locations
- Anticipated timeline for competition
- Type of competitive process
- Anticipated investment requirement
- Preferred offering and/or concepts

NEW UNIT NO.	CURRENT TENANT/USE	FUTURE USE	PACKAGE/CEP	ANTICIPATED INVESTMENT
<b>FOOD PACKAGE #1</b>				
CT-12	DISH D'LISH	SPECIALTY COFFEE/WINE BAR	FOOD PACKAGE #1	\$1.5 M
CA-1	STARBUCKS	SPECIALTY COFFEE	FOOD PACKAGE #1	\$250,000
CB-3	QUIZNOS	SPECIALTY COFFEE	FOOD PACKAGE #1	\$650,000
CB-4	CASA DEL AGAVE	LOCAL CHEF CASUAL DINING	FOOD PACKAGE #1	\$1.3 M
CC-16	FRESHENS	LOCAL CHEF QUICK SERVICE FOOD	FOOD PACKAGE #1	\$300,000
CC-07	WISHING STONE	SPECIALTY COFFEE	FOOD PACKAGE #1	\$1.5 M
NE-2	STARBUCKS	SPECIALTY COFFEE	FOOD PACKAGE #1	\$900,000
BC-6	VACANT ARRIVALS HALL	SPECIALTY COFFEE/WINE BAR	FOOD PACKAGE #1	\$1.1 M
SS-1	DUNGENESS BAY	FULL SERVICE DINING	FOOD PACKAGE #1	\$200,000
NE-6	STARBUCKS	SPECIALTY COFFEE	FOOD PACKAGE #1	\$300,000
<b>LARGE PACKAGE #2</b>				
CD-1	AFFORDABLE LUXURIES	FULL SERVICE DINING	LARGE FOOD PACKAGE #2	\$1.2 M
CD-4	SEATTLE BEST COFFEE	QUICK SERVICE FOOD	LARGE FOOD PACKAGE #2	\$800,000



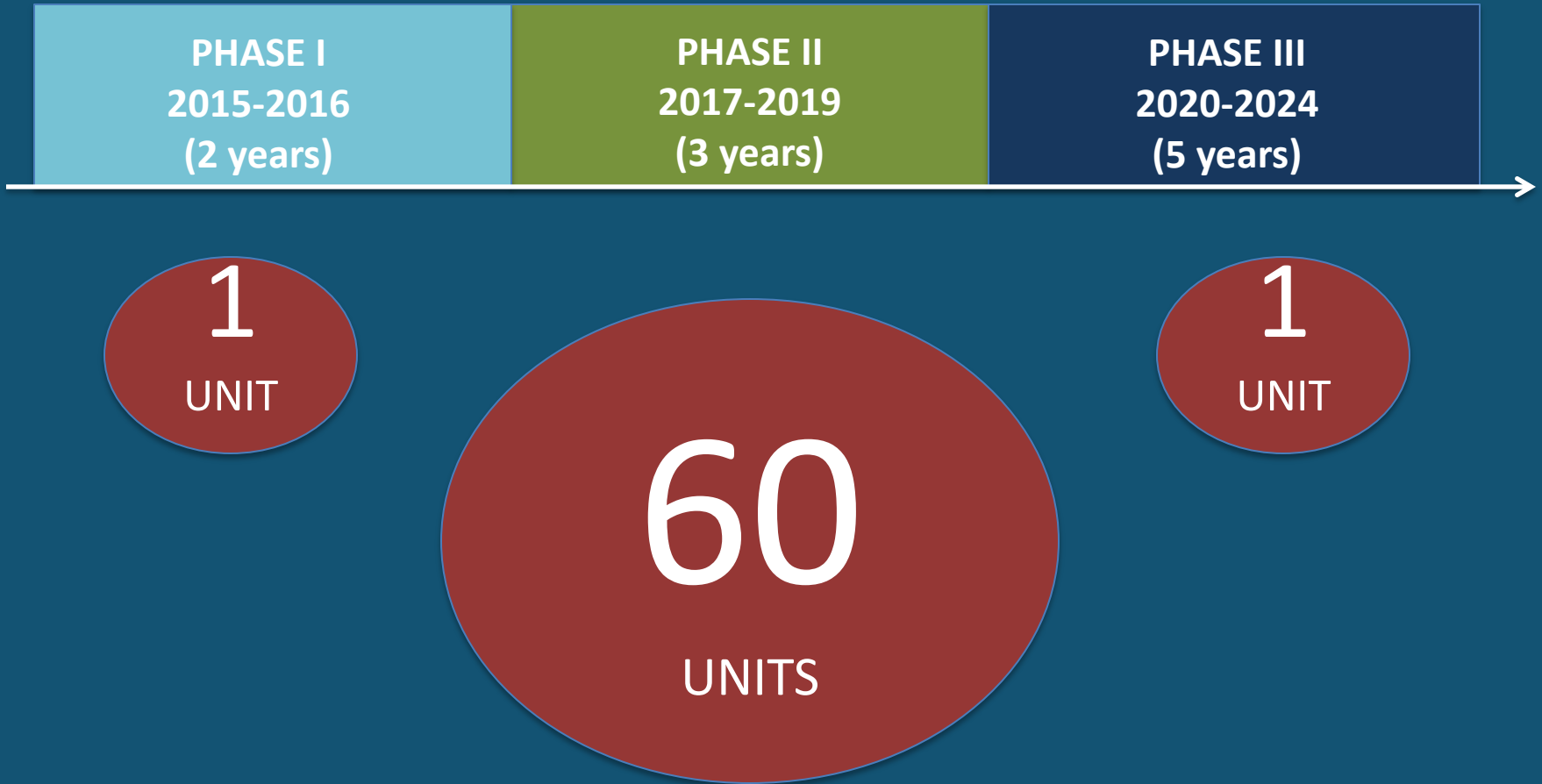
# Airport-Wide Expirations 2015-2017

# Phasing Plan Strategy

- Develop a phasing plan that mitigates impact by spreading expirations over several years
  - Avoid wide-spread closures in 2017
  - Assure adequate customer service in all parts of the airport
  - Maintain revenue generation to the Port
  - Mitigate employment instability

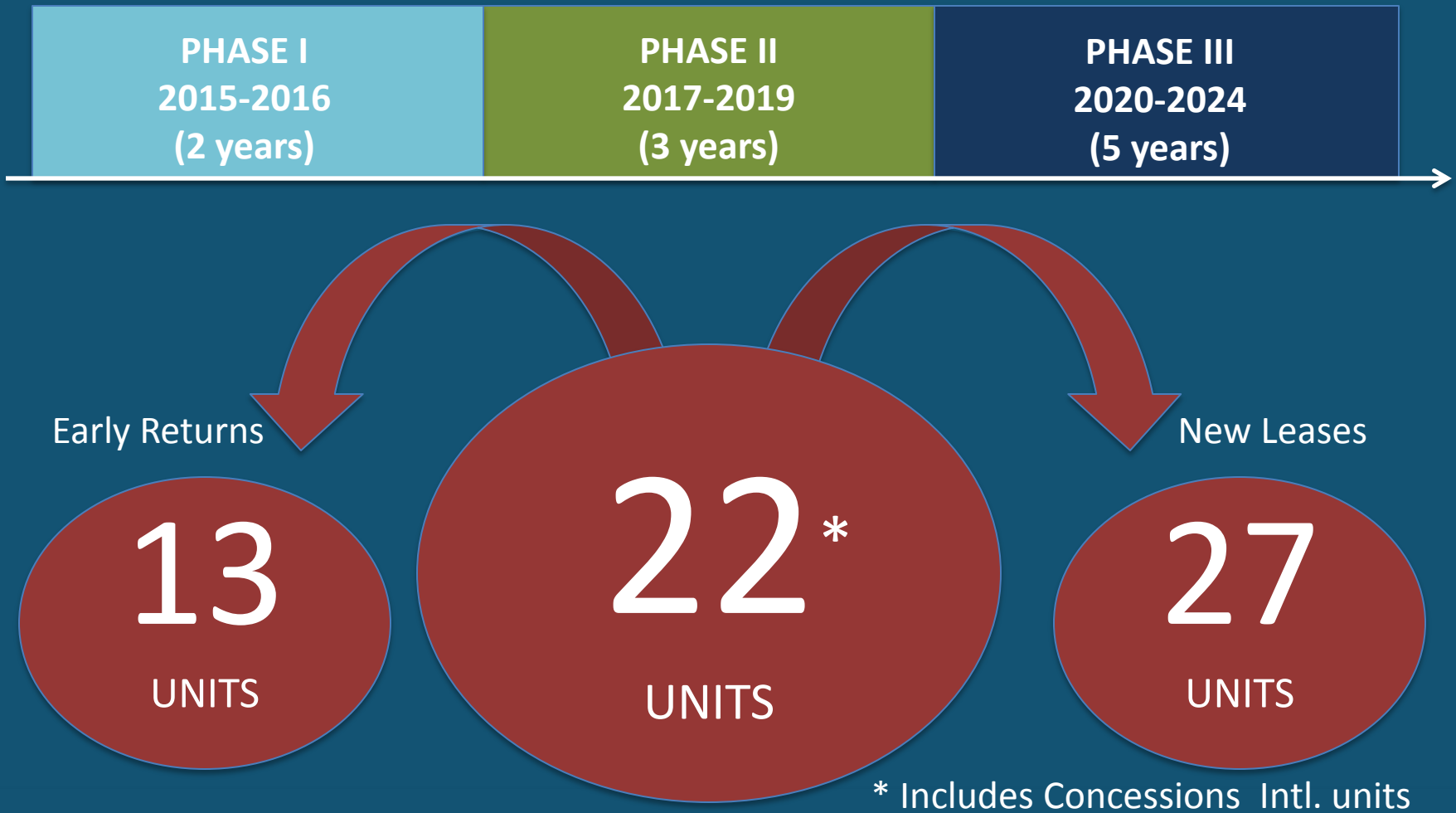
*A well-conceived phasing plan is the best solution for the traveling public and the Port*

# Prime Lease Expirations



*Current schedule of expirations is not manageable*

# Proposed Prime Lease Expirations



*Achievable schedule of prime operator expiration dates<sup>8</sup>*



# Proposed Lease Modifications

## Prime Operator Units:

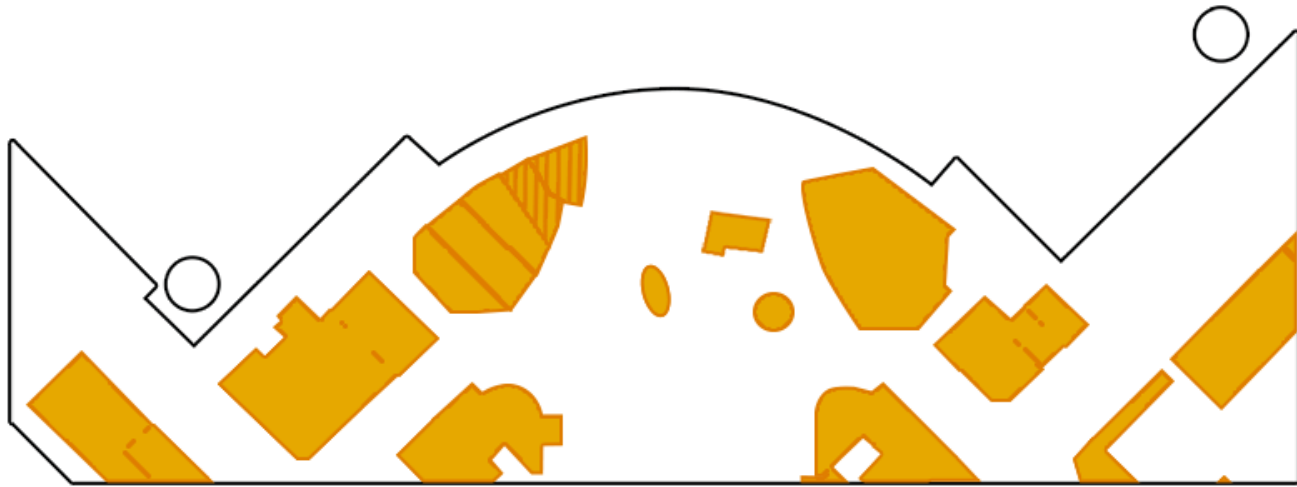
- Early Returns
- On-Time Expirations
- Extended Operation under Current Leases
- New Leases

*Lease Modification I:  
Anthony's Restaurant*

# Central Terminal Anchor Restaurant

- Opened in 2005
- Operated by HMSHost
- 7,000 square feet
- Initial investment: \$4.2 M
- Refurbished in 2010: \$400K
- Sales \$13 M in 2013
- Approx. 140 employees





# Anthony's Restaurant

# Phasing Proposal Summary

- Extend lease 2 years, 3 months (Sept. 2017)
  - Eliminate two 5-year options
- Total lease term: 12 years, 3 mos.
- Increased percentage rent to Port
  - Higher rent: 10.5% (tiered)
  - Longer term: \$600,000 incremental revenue

*Lease Modification II:  
Host*

# Host/SRA at Sea-Tac

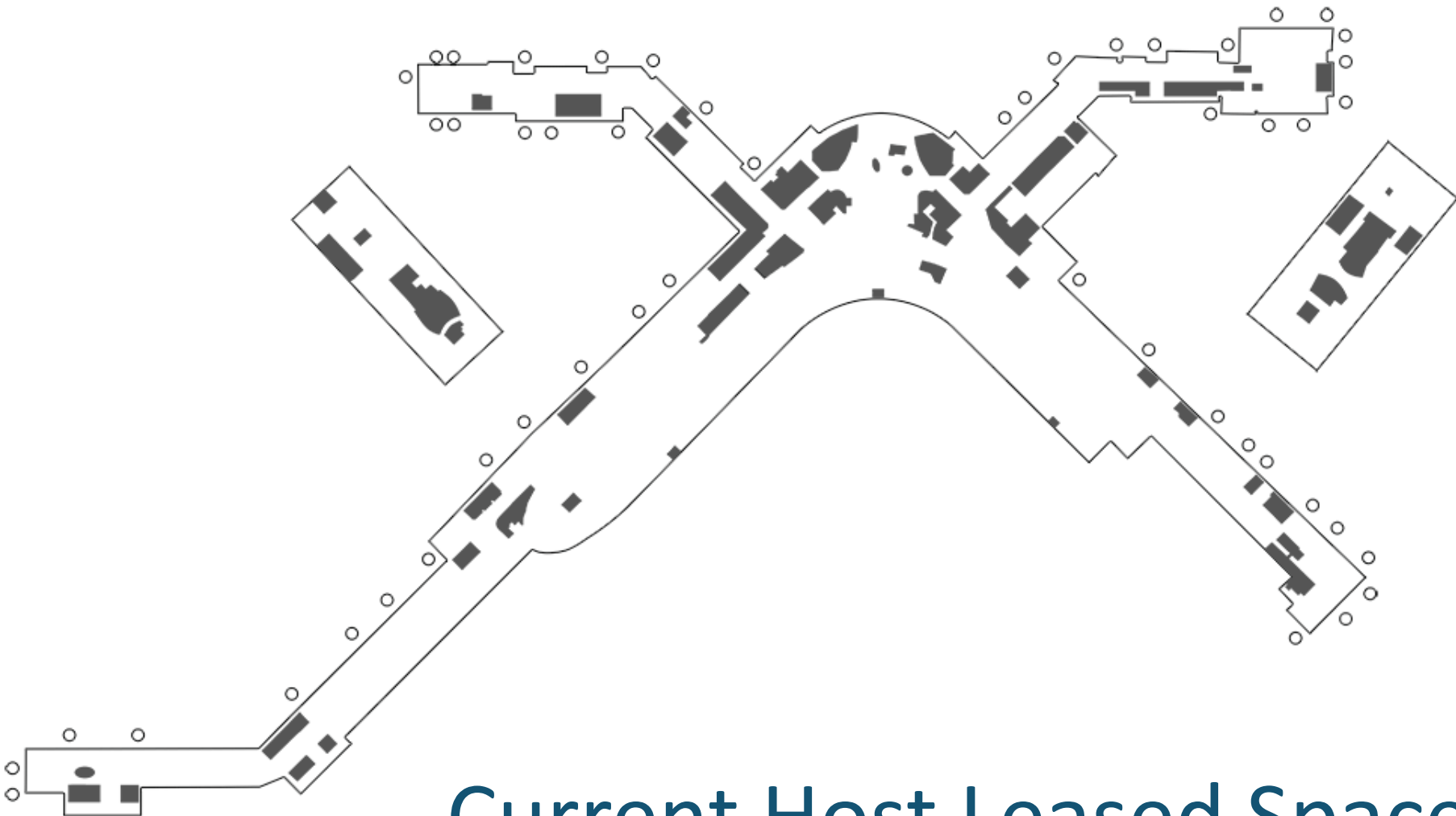
- Master concessionaire 1963-2004
- Operates in 24 locations
- Leases 9 units to ACDBEs
- Employs 700 associates
- 2013 Gross sales: \$60 million



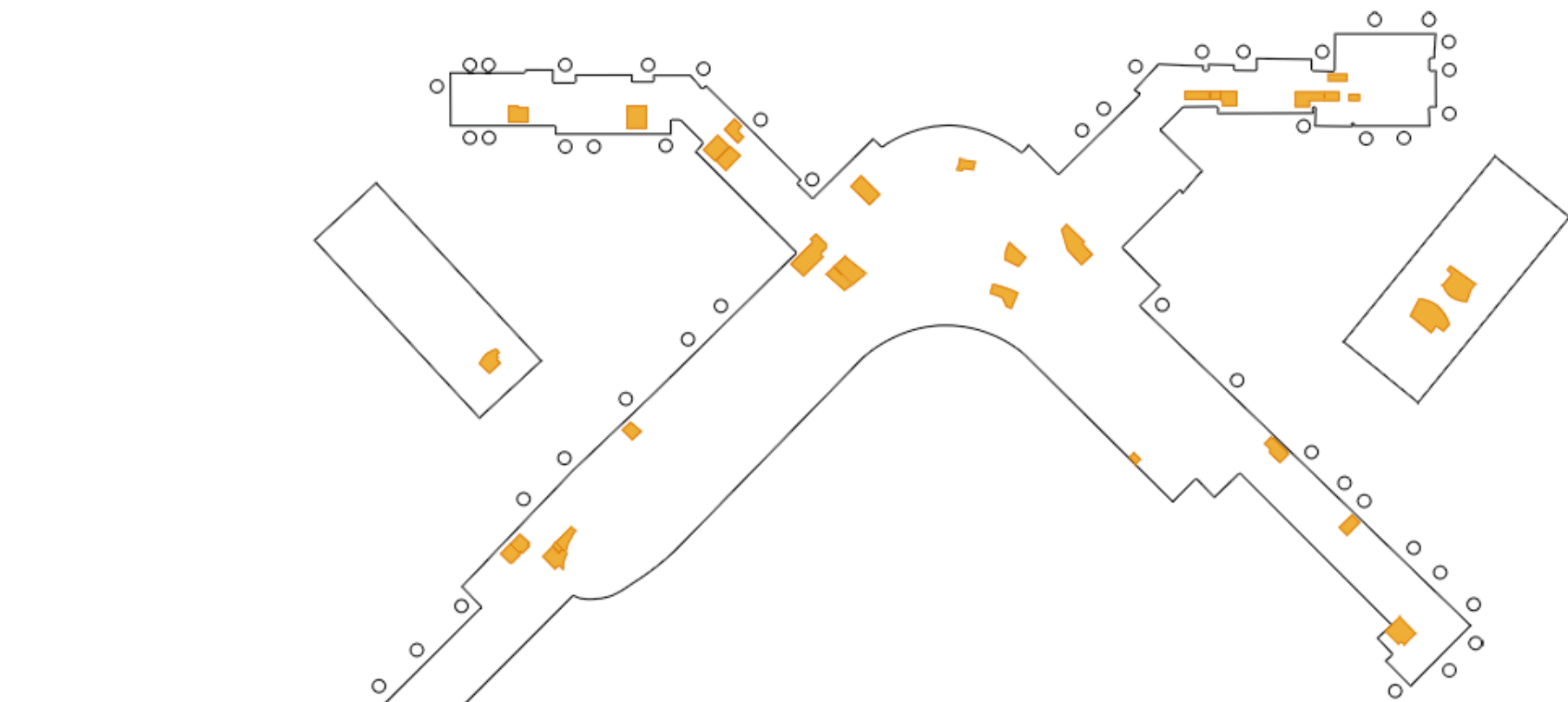
# Phasing Proposal Summary

- Return six units early (2015-2016)
  - No reimbursement for remaining value (\$352,000)
- Six Host/SRA operated units expire on-time, four North Satellite units remain in operation
- Four subtenant units expire on-time, five continue operation additional 1-2 years
- Ten Host exclusive-concept units in a new lease expiring in 2023

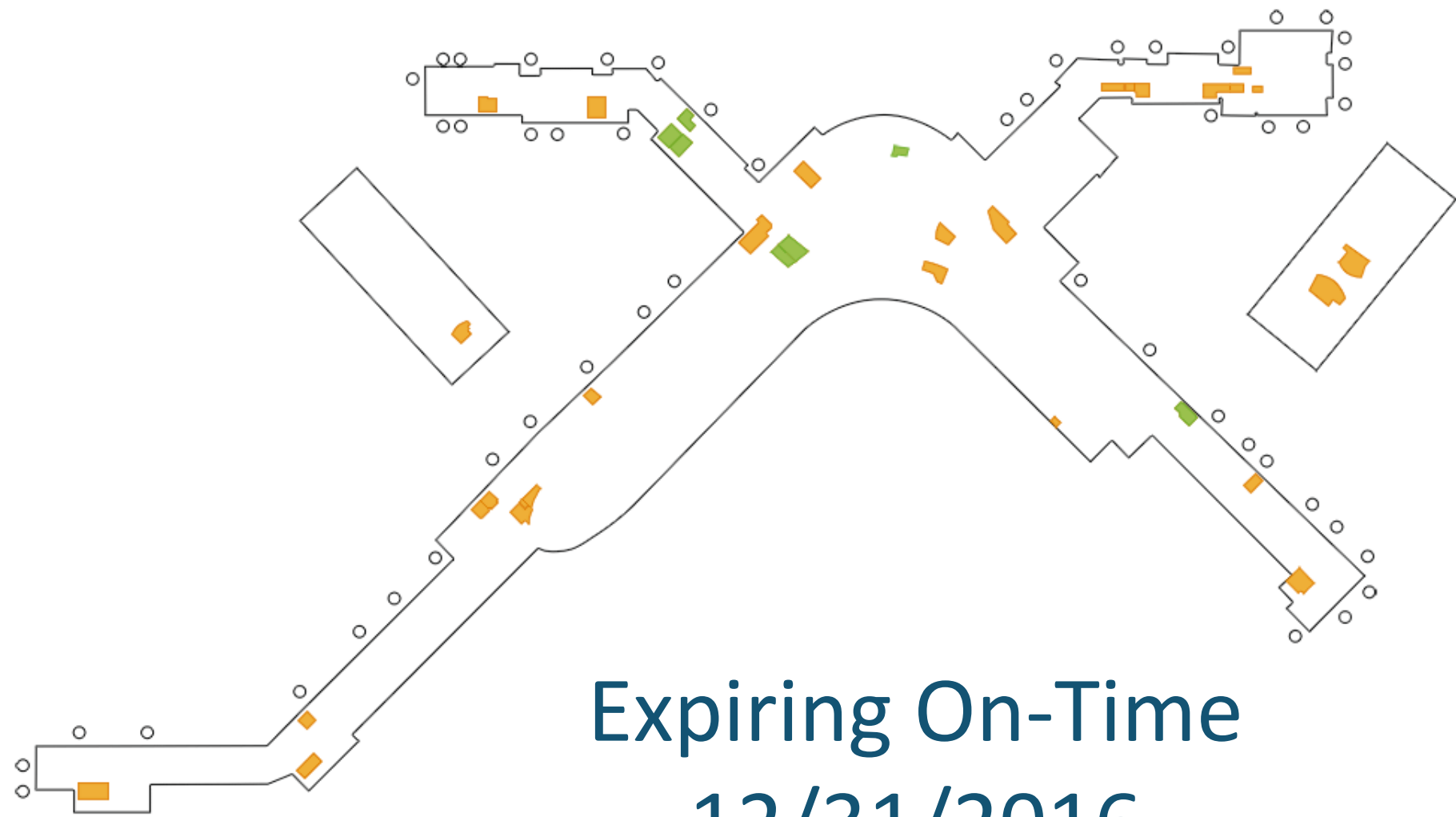




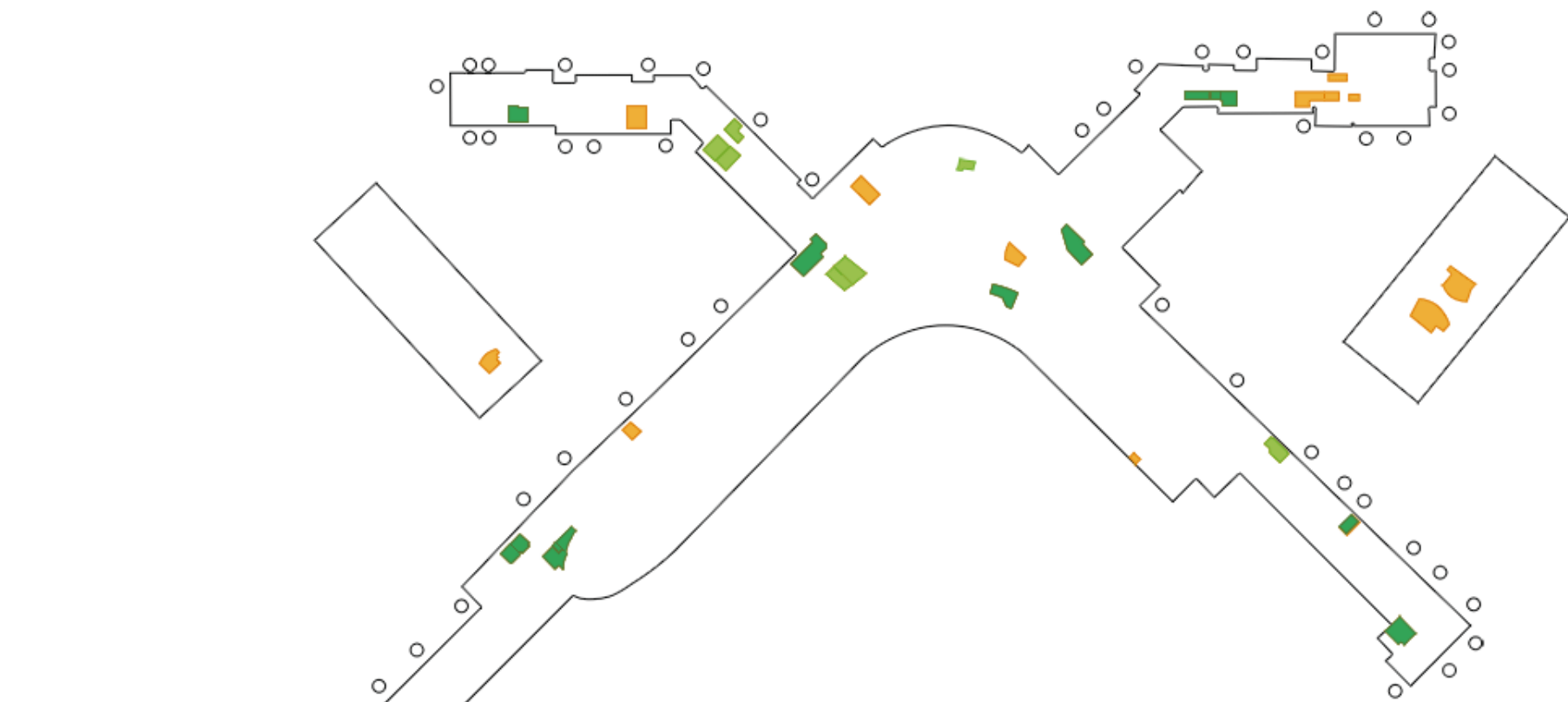
# Current Host Leased Space



# Early Return Units 2015-2016



Expiring On-Time  
12/31/2016



# Extended Operation 2017-2019

# ACDBE Lease Expirations

- Four units proposed to expire on-time allow for new opportunities, e.g:
  - Concourse A restaurant/gourmet market
  - Specialty retail
  - Personal services
- Five units proposed to remain in operation for an extended period between 15-24 months
- Total extended lease term: ~14.5 years

# Transition Lease Objectives

- Reasonable 'premium' rent in exchange for a negotiated contract
- Only HMSHost's exclusive brand-name concepts, e.g. Starbucks Coffee
- Balance desired new investment in as short a lease as possible



**New Lease  
Food Package #1  
Expire 2023**

# Summary of Proposed Terms

Rent Tiers	Percentage
0 - \$10 million	12%
\$10,000,001 - \$20 million	13%
Sales over \$20 million	15%

Proposal Summary	
New Expiration Date	2023
New Investment	\$7.2 million
Net Book Value for Returned Units	\$352,000
Effective Rent	13.5%
Estimated First Year Sales	\$26.1 million
Estimated Term Revenue to Port	\$27.3 million
Jobs Supported	250



# Recommended New Host Lease

## Benefits for the Port:

- Premium percentage rent
- Higher square footage productivity
- All Host-exclusive, local sense-of-place concepts
- Staple brand Starbucks in place for transition
- Limited to ten units, preserves future competition
- Continuity of employment for 250 Host associates

Comparison	Current	Proposed
Effective Rent	12.6%	13.5%
Square Footage	13,606	11,689
Estimated Sales per SF	\$1,675	\$2,200

*Lease Modification III:  
Hudson*

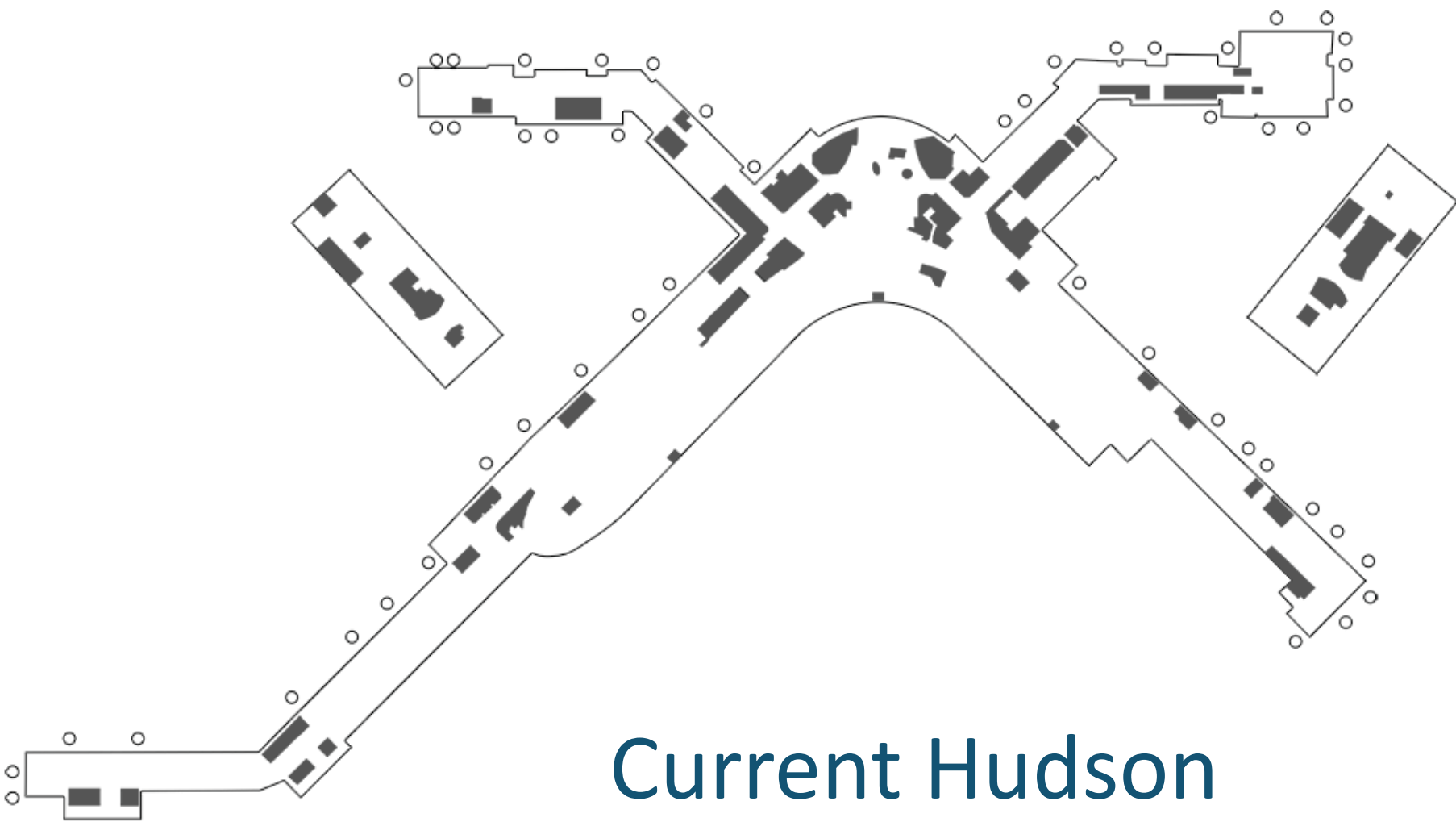
# Hudson at Sea-Tac

- Awarded in RFQ process
- Evolving to convenience retail
- Employs 250 associates
- ACDBE ownership: 25%
- 2013 Gross sales: \$55 million

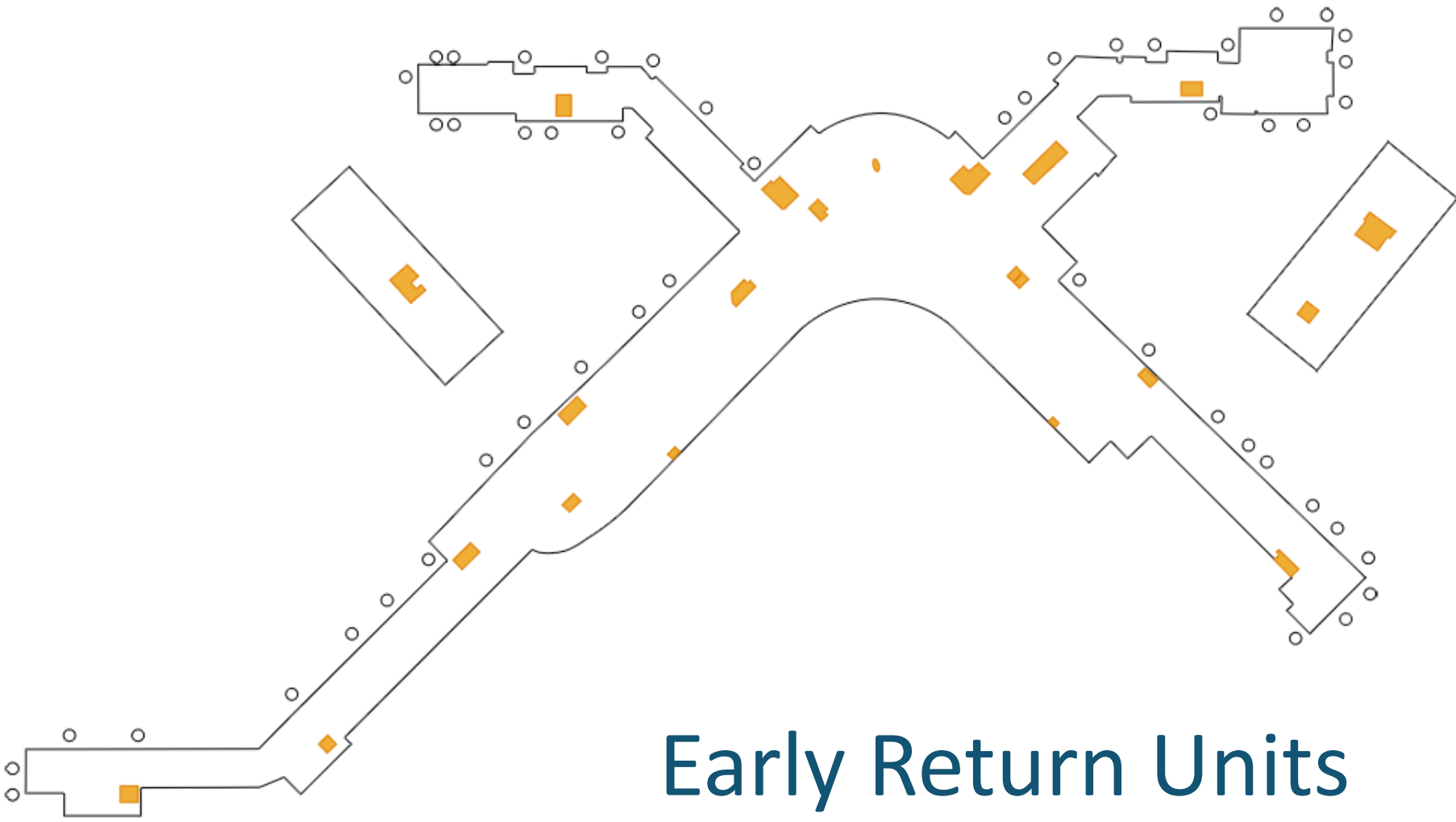


# Phasing Proposal Summary

- Return seven units early (2015-2016)
  - No reimbursement for remaining value (\$1.2 million)
- \$12.3 million in new investment to increase sales
- Two lease packages with different expiration dates, two years apart
- Package #1: 6 units + 2 NorthSTAR limited duration, Package #2: 9 units
- Increased percentage rent to Port



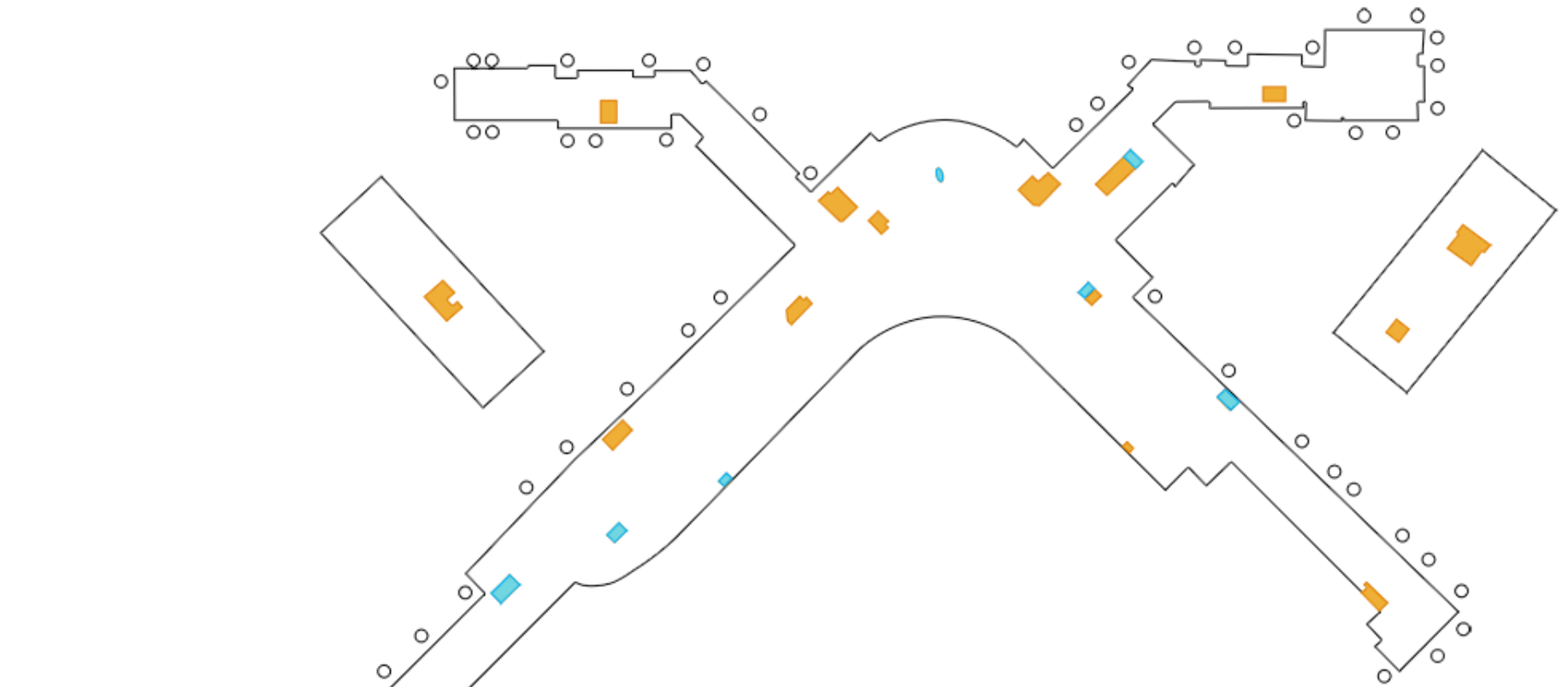
# Current Hudson Leased Space



# Early Return Units 2015-2016

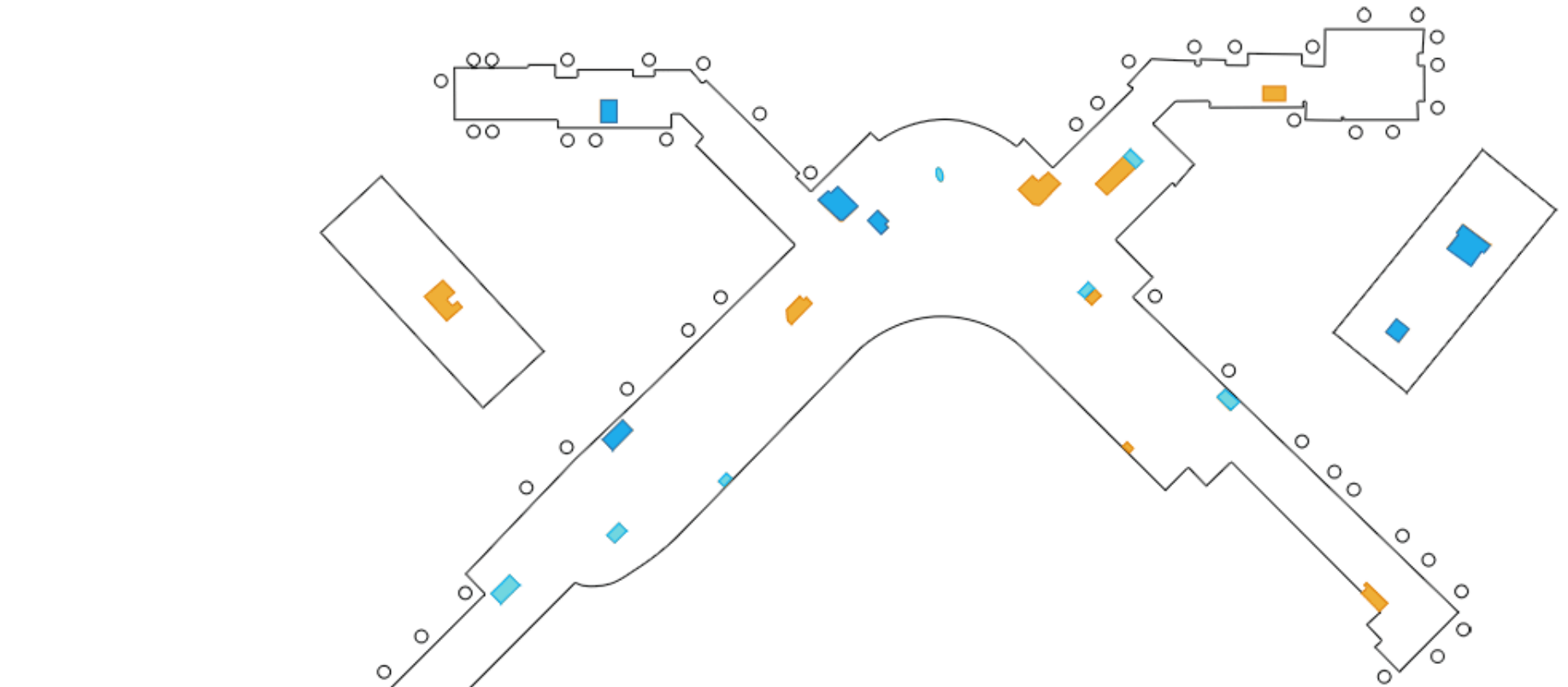
# Transition Lease Objectives

- Reasonable 'premium' rent in exchange for negotiated contracts
- Split the current business into two packages
- Require investment to generate higher sales in convenience retail
- Re-concept specialty retail to Hudson premium brands, e.g. Coach



**New Lease  
Retail Package #1  
Expire 2022**





**New Lease  
Retail Package #2  
Expire 2024**

# Summary of Proposed Terms

Rent Tier – Convenience	Percentage
0 - \$25 million	16%
\$25,000,001 - \$45 million	17.5%
Sales over \$45 million	19%

Rent Tier – Specialty	Percentage
0 - \$10 million	9%
\$10,000,001 - \$15 million	10%
Sales over \$15 million	11.5%

Proposal Summary		
New Expiration Date	2022	2024
New Investment	\$3.3 million	\$9 million
Estimated First Year Sales	\$27.1 million	\$27.9 million
Net Book Value for Returned Units	\$1.2 million	
Effective Rent	16.4%	
Estimated Term Revenue to Port	\$82 million	
Jobs Supported	250	

# Recommended New Hudson Leases

## Benefits for the Port:

- Premium percentage rent
- Appropriate reduction in square footage
- Higher square footage productivity
- Splits business into two packages
- New investment in 2015-2016
- At full capacity for transition
- Continued ACDBE ownership
- Continuity of employment for 250 Hudson associates

Comparison	Current	Proposed
Effective Rent	15.1%	16.4%
Square Footage	32,336	26,992
Estimated Sales per SF	\$1,688	\$2,044

PRE-2004 MASTER CONCESSIONAIRE	2005-2017 HYBRID PRIME	2017-2024 TRANSITION	2024 & FORWARD
<p><b>FOOD</b> HMS Host</p> <p><b>NEWS/GIFT</b> HMS Host</p> <p><b>DUTY FREE</b> HMS Host ACDBE Subtenants</p>	<p><b>FOOD</b> HMS Host SRA Concessions International ACDBE Subtenants (10) Direct Leases</p> <p><b>RETAIL</b> Hudson</p> <p><b>DUTY-FREE</b> Dufry</p>	<p><b>FOOD</b> Multiple New Packages for Primes, Local, Small &amp; Disadvantaged HMS Host Recompete 2023 ACDBE (6) Subtenants Recompete 2018-19</p> <p><b>RETAIL</b> Hudson Recompete 2022, 2024</p> <p><b>DUTY FREE</b> Dufry Recompete 2020</p>	<p><b>ALL UNITS RECOMPETED</b> Food Retail Duty Free</p>