

PORT OF SEATTLE
MEMORANDUM

COMMISSION AGENDA
ACTION ITEM

Item No.	4f
Date of Meeting	June 28, 2016

DATE: May 17, 2016
TO: Ted Fick, Chief Executive Officer
FROM: James Schone, Director, Aviation Business Development
James Jennings, Senior Manager, Aviation Properties
SUBJECT: Tenant Reimbursement Agreement (TRA) for American Express Centurion Lounge Lease Expansion on Concourse B, CIP: C800154)

Amount of This Request:	\$278,000	Source of Funds:	Airport Development Fund
Est. Total Project Cost:	\$278,000		
Est. State and Local Taxes:	\$18,000		

ACTION REQUESTED

Request Commission authorization for the Chief Executive Officer to execute a tenant reimbursement agreement in the amount of \$278,000 for costs to be incurred by American Express Travel Related Services for expansion of the Amex Centurion Studio Lounge.

SYNOPSIS

The Amex Centurion Studio Lounge, currently located on Concourse B, provides a premium passenger experience at Sea-Tac International Airport, but when compared to Amex's other airport locations it is significantly undersized (currently 3,200 square feet compared to their typical 10,000 square foot lounges elsewhere). Because of this small footprint, Amex frequently experiences lounge congestion and have to turn away valuable passengers during peak times. To make matters worse, the new construction of the adjacent Delta Airlines Lounge blocks all of the windows and natural light of the existing Amex lounge, creating a decreased level of service for passengers. Fortunately, the adjacent lounge construction also affords Amex an opportunity to expand their footprint by 1,400 square feet into a newly constructed area directly adjacent to the existing Amex Lounge. This expanded location would also return the opportunity for their lounge to have windows and natural light.

Amex has indicated they are interested in expanding into this new expansion space, but since this area has never been occupied and does not have utilities or occupancy improvements, Amex has requested to construct all needed improvements as part of their tenant improvement project, requesting the Port provide a reimbursement for the landlord portion of the improvements via the Port established Tenant Reimbursement Procedure and Guideline (AV-2). Amex's request of a \$278,000 reimbursement has been pre-negotiated as a fixed price, based on review of Port

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Project Management Group's estimate of likely costs based on the project scope. American Express assumes all risk of cost increases associated with construction. It requires Commission authorization because Resolution 3605 still limits staff authority delegation for tenant reimbursements to \$200,000.

BACKGROUND

To support its growing operations at the Airport, Delta is constructing a new centrally located Delta *SkyClub* Lounge located between Concourses A and B. As part of this project, Delta's Lounge project construction obstructs all existing windows of the existing Amex Lounge, but is also constructing a separate HVAC tower that provides for the opportunity of approximately 1,400 square feet of expansion space for Amex to grow into and regain some of their exterior windows. Although this expansion opportunity gives them only a fraction of their desired expansion area, they are interested in the incremental buildout until the Port can find a long-term solution that meets their desired lounge requirement of 10,000 square feet. But because this area has never been occupied by a tenant, it is in a raw condition which requires basic improvements to allow for occupancy and lease. Using the Port's Tenant Reimbursement Policy/Guidelines, the Port would reimburse Amex the cost to construct basic utilities and other occupancy related improvements. Amex's leased premises would expand 1,400 square feet and would return some of the windows and daylight hidden by the current Delta construction project. This capital project funding is included in the 2016 – 2020 capital budget under CIP C800154 (Tenant Reimbursement)

PROJECT JUSTIFICATION AND DETAILS

At present there is not adequate space in the terminal to accommodate Amex' interest for a larger lounge to support current and projected passenger loads at the Airport; their desired program for Seattle is between 10,000 – 12,000 square feet. This project presents a strategic opportunity to utilize newly created space on the concourse level that will meet an important tenant's operational need, while generating increased non-aeronautical revenue for the Airport. When combined with their existing Premises, this expansion will provide Amex with a lounge that is approximately 4,500 square feet.

The Port forecasts an increase of approximately \$308,000 per year in revenue from this lease of this expansion area to Amex.

Schedule

Commission Authorization of TRA and project	2 nd Quarter 2016
Building Permit Issued/Construction Begins	3rd Quarter 2016
Construction Complete/Grand Opening	4th Quarter 2016

Amex is planning to work with the same contractor as Delta, so that the completion of their tenant improvements will be scheduled in tandem with the completion of Delta's Sky Club project.

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FINANCIAL IMPLICATIONS

Budget/Authorization Summary

	Capital	Expense	Total Project
Original Budget	\$278,000	\$0	\$278,000
Previous Authorizations	\$0	\$0	\$0
Current request for authorization	\$278,000	\$0	\$278,000
Total Authorizations, including this request	\$278,000	\$0	\$278,000
Remaining budget to be authorized	\$0	\$0	\$0
Total Estimated Project Cost	\$278,000	\$0	\$278,000

Project Cost Breakdown

	This Request	Total Project
Design Phase	\$0	\$0
Construction Phase	\$260,000	\$260,000
Sales Tax	\$18,000	\$18,000
Total	\$278,000	\$278,000

Budget Status and Source of Funds

This project, C800154 (Tenant Reimbursement) is included in the 2016 – 2020 capital budget and plan of finance. The funding source is the Airport Development Fund.

Financial Analysis and Summary

CIP Category	Revenue/Capacity Growth
Project Type	New Business Development
Risk adjusted discount rate	8%
Key risk factors	Risks that may affect performance and financial returns, as displayed below, include: -schedule delays may impact rent payments -expanded lounge may reduce revenues at the Port's Club at SEA on Concourse A
Project cost for analysis	\$278,000
Business Unit (BU)	Terminal Building
Effect on business performance	Lease payments are assumed to begin 10/1/16. Annual lease payments of \$308,000 are assumed

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IRR/NPV	Remaining lease term analysis (expansion premises only; existing Amex lease, expires March 26, 2020): NPV: \$634,467 IRR: 136% Payback: < 1 year Assumptions: -lease rate of \$220.00 per square foot per year -lease space of 1,400 square feet. -lease payments begin 10/1/2016.
CPE Impact	Less than \$.01(should actually reduce CPE due to revenue sharing)

Lifecycle Cost and Savings

This project will upgrade for occupancy approximately 1,400 square feet of shell space. Tenant will be responsible for maintenance of these improvements.

STRATEGIES AND OBJECTIVES

This project supports the Port's goals of:

- Advancing the region as a tourism destination and business gateway by providing the improved facilities and amenities that are expected by international and business travelers.
- Operating a world class airport by anticipating and meeting the needs of our tenants and passengers.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1) – Do not allow Amex to expand into this new area.

Additional Cost: \$0

Pros:

- Port defers costs of upgrading shell space to leasable condition.

Cons:

- No additional lease revenue for space.
- Keeps Amex operating in a windowless lounge that does not meet their desired customer service standard.
- Does not meet the business requirements of an important tenant.

This is not the recommended alternative.

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Alternative 2) – Allow Amex to expand into this newly created expansion area, but do not reimburse them for basic occupancy and system improvements in the expanded lounge space which the landlord is typically responsible for.

Additional Cost: \$0 for the Port

Pros:

- This would be the least cost option, with Amex bearing 100% of the costs to expand the terminal and build out the space for their lease.

Cons:

- Although the Port has made no formal commitment for reimbursement pending Commission approval of this action, not reimbursing Amex for this work is inconsistent with past practice.
- This would put an undesirable financial burden on Amex, making them pay for the costs of both the landlord and tenant improvements.
- This is not consistent with industry norms, where the landlord is generally responsible for costs associated with the development of building systems, utilities and other occupancy related improvements.

This is not the recommended alternative.

Alternative 3) – Authorize a TRA with Amex for costs associated with the construction of basic systems and finishes in the new lounge space.

Cost: \$278,000

Pros:

- Port will receive annual lease revenues of approximately \$308,000 per year.
- Minimizes the Port's costs to bring the space to leasable condition, combining the landlord's occupancy and systems scope with the tenant's interior improvements and finishes.
- Puts the otherwise inaccessible space into productive use.

Cons:

- No perceivable cons.

This is the recommended alternative.

ATTACHMENTS TO THIS REQUEST

- Exhibit A: Expanded premises
- Exhibit B: Tenant Reimbursement Agreement and associated support documents

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PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

- None