

**PORT OF SEATTLE**  
**MEMORANDUM**

**COMMISSION AGENDA**

**Item No.** 6b

**Date of Meeting** March 6, 2012

**DATE:** February 27, 2012

**TO:** Tay Yoshitani, Chief Executive Officer

**FROM:** James R. Schone, Director, Aviation Business Development  
Deanna Zachrisson, Manager, Concessions Business

**SUBJECT:** Lease and Concession Agreement for Beecher's Handmade Cheese (former Regus Business Center)

**ACTION REQUESTED:**

Authorization for the Chief Executive Officer to negotiate and execute a lease and concession agreement with Beecher's Handmade Cheese to operate a food and retail unit on Concourse C, in space recently vacated by Regus Business Center, for a term of seven years. The draft lease (Exhibit D) is not necessarily the final version and is subject to negotiation within the stated parameters provided in this memorandum.

**SYNOPSIS:**

The Airport's Concourse C is one of the busiest terminal areas with 4.2 million annual enplanements. In particular, the front portion of the concourse serves a nearly constant schedule of short-haul departures for Horizon Air. Despite this prime location, a business center tenant closed its doors on December 20, 2011, because its business model became obsolete in an era of Wi-Fi, mobile smartphones and tablets. The 1,200 square foot unit is currently vacant. In order to generate new revenue and avoid the blight of a vacant unit in a high-traffic location, staff has identified an exciting new tenant that brings a uniquely Seattle presence to the Airport and better meets the needs of the traveling public in this location.

Recently, the Port Commission adopted program goals for the future concessions program. Staff anticipates completing a draft concessions master plan by early 2013. The plan will guide the selection of new tenants in the 2015-2017 timeframe. Staff will present the draft plan to the Commission and seek policy guidance prior to initiating implementation. This proposal for a locally owned and operated small family business with a strong local brand concept is consistent with the goals articulated in the Commission motion adopted on February 14, 2012, and at the same time allows the Airport to meet immediate passenger needs.

Staff requests approval to lease this unit to Beecher's Handmade Cheese, best known as an anchor tenant in the Pike Place Market. This lease would provide a food and beverage unit

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servicing artisan, small-batch cheeses and other “foodie” favorites where customer demand is high, as well as adding strong local presence to the Airport, which travelers prefer. It provides an opportunity for a small Seattle family-owned business to grow by entering a new market segment. The new Beecher’s location will hire 16 employees, and Regus Business Center has absorbed its employees within other Puget Sound locations.

### **BACKGROUND:**

The Concourse C unit, known as unit CC-09 (Exhibit B), is located across from the Horizon Air gates and adjacent to two successful local service/retail concepts, Massage Bar (massage/skin care retail) and butter LONDON (nail salon/retail). Regus Business Center Express, a once-popular business center concept featuring computer work stations, fax machines and copiers, became obsolete with the proliferation of mobile smartphones and tablets. The Airport’s transition to free Wi-Fi in 2009 further weakened its business concept and soon only retail sales of computer accessories and business supplies were generating meager sales. In 2010, Regus achieved gross sales of \$515,000, which provided the Port with \$86,000 in total revenue. While direct comparisons to other units are difficult, among in-line retail concepts, Regus was the poorest performer in the Airport, and sales for an area with such high traffic were particularly disappointing.

In the summer of 2011, Regus Business Center notified the Port that it intended to exit the airport market segment and wished to terminate or assign its lease to another tenant. If Regus abandoned the unit against the wishes of the Port, the legal option would be to place the tenant in default. In the case of assignment, the Port would have ultimate approval rights of any proposed assignee; however, staff took a proactive approach to locating a new, local tenant, rather than face the prospect of accepting a tenant of Regus’ choosing.

### **Addressing traveler needs**

The Concourse C location had functioned as a quasi-retail concept, and staff initially sought to identify a new retail tenant that could take advantage of existing infrastructure and presumably could assume the space quickly for a short-term lease. However, primary potential candidates among brand-name personal computer retailers declined the opportunity to assume the space. In a second phase, staff looked more broadly at how the space might best serve the traveling public regardless of its current use.

Staff has been concerned for some time about the lack of sufficient coffee and quick serve food capacity at peak times near the Alaska/Horizon gates. The Horizon gate area in front portion of Concourse C is currently served by the Central Terminal Starbucks Coffee as well as a Dilettante Mocha Bar. Both of these locations are not in the immediate vicinity and also suffer from long lines during the morning through noon departure peak. Both of these units achieved sales in excess of \$3,200 per square foot, which is far above the typical range of \$1,250 - \$2,000 per square foot for airport food and beverage. These sales suggest that there is additional demand

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that is not being met by the existing service. This is not surprising because there is no food and beverage service on the front portion of Concourse C – a high-traffic area for the Horizon departures. The end portion of Concourse C has one Starbucks Coffee, and this location also experiences daily lines snaking out of the unit into the common area.

Although more coffee and quick serve food service is needed on Concourse C, there is no need to replicate what is already offered by Starbucks and Dilettante, which primarily focuses on coffee and pastries. The Horizon flight schedule is active throughout the day and evening, which would be most appropriately served by a concept that serves multiple dayparts (a term used in restaurant terminology to divide the day in to several parts, during each of which a different type of menu is emphasized). Additionally, the Horizon flights typically offer very limited food, and travelers need food that is easy to take onboard. Of the many local concepts that the Airport staff is familiar with, staff believes that the unique concept of Beecher's Handmade Cheese is the best fit for this location.

### **Why Beecher's Cheese**

Beecher's Cheese has been an anchor tenant at the Pike Place Market since 2003. The company was founded by Tacoma-native Kurt Beecher Dammeier. The concept offers a unique combination of artisan, small-batch cheeses made at the Market, signature tomato soup, fresh Panini sandwiches, "Oprah's Best" Macaroni and Cheese with gourmet coffee from Seattle micro-roaster Fonté coffee. Fonté also is known for its own Café Fonté location near the Seattle Art Museum in downtown Seattle. In addition, the concept offers retail products such as bulk cheese, signature crackers, cheese housewares and cookbooks by Kurt Dammeier and other well-known Seattle chefs. Staff believes that local caché of chef Dammeier's cookbooks will have a similar traveler appeal as evidenced with the Airport's Kathy Casey Dish D'lish concept. For the Sea-Tac location, Kurt Dammeier would develop a breakfast menu as well as offer fresh fruit and Washington wines both for onsite consumption and in wine and cheese baskets to-go.

### **Scale for Airport Operations**

Beecher's Handmade Cheese is part of Kurt Dammeier's small company, Sugar Mountain LLC. The small scale business is nonetheless well-established with multiple food and beverage concepts/locations, including Pasta & Co. at University Village and Bennett's on Mercer Island. Beecher's also will be serving tomato soup and macaroni and cheese at sporting events at CenturyLink Field. The company's financial stability and proven ability to operate multiple locations is an important consideration for the Airport. In addition, Beecher's Handmade Cheese is experienced at dealing with very high customer volumes, difficult logistics and complicated deliveries at their Pike Place Market location. The Beecher's team is therefore not intimidated by the Airport's unique requirements.

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### **Investment by Local Small Business**

Beecher's Handmade Cheese will remodel the existing CC-09 space to closely mimic the interior style of their Pike Place Market location, with chalkboard menus, warm colors and patinaed recycled materials. This unit investment is estimated at a minimum of \$200,000. In order to amortize this investment, staff recommends a seven-year lease agreement that is consistent with industry standards for coffee and retail concepts in airports. Beecher's Handmade Cheese will pay 12% of gross sales on all product categories. This rent is also within the customary range for stand-alone coffee and retail concepts.

### **PROJECT JUSTIFICATION:**

Approval of this lease will allow the Port to stem the loss of revenue and the unsightly appearance of a vacant concessions unit as quickly as possible, and over the term of the lease earn significantly higher revenues than under the previous tenant.

Approval of this lease also will add much-needed food and beverage service to the front portion of Concourse C, where there currently is no food and beverage offering to meet the needs of Horizon Air passengers. The proposed tenant is a local small business, which furthers the Port's goal of increasing small business participation.

#### ***Project Statement:***

Open a new food and retail concept, Beecher's Handmade Cheese, in the Concourse C unit known as CC-09 by April 30, 2012.

#### ***Project Objectives:***

- Provide local business and employment opportunity
- Meet the needs of the traveling public
- Increase revenues to the Port
- Increase local presence at the Airport

#### ***Project scope of work and schedule:***

Execution of agreement	March 15, 2012
Design approvals	April 2012
Unit refurbishment	April-May 2012
Open for business	May 30, 2012

### **PROPOSED LEASE TERMS:**

Standard lease term lengths and rent levels are well-established in the airport concessions industry. Lease term lengths are directly connected to the level of required investment and anticipated volumes for different types of businesses. Specialty retail requires the least initial investment and lease term lengths typically range between 5-7 years. Specialty coffee concepts

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also require much less investment than quick-serve or full service restaurants and volumes are very high. Lease term length is typically between 5-7 years for this type of operator. The longest lease term lengths are granted for quick-serve and full-service restaurants, which require significantly more investment than any other type of concept, and such terms are typically 10 years.

Beecher's Handmade Cheese both in terms of investment requirement and concept falls clearly into the typical 5-7 year range. As build-out costs at the Airport tend to be high, and there is no existing venting equipment or similar from the previous tenant, a seven-year lease term is reasonable. Also, the seven-year lease term places the term expiration in 2018, which follows the major redevelopment phase 2015-17. A greater staggering of lease term expirations is a goal for the concessions program. The percentage rent proposed – 12% on all sales – is consistent with typical rent terms at the Airport for this type of concept.

### **FINANCIAL IMPLICATIONS:**

#### **Financial Analysis Summary:**

<b>Tenant</b>	<b>Regus (Service)</b>	<b>Beecher's (Food/retail)</b>
Store Open	April 6, 2009	April 30, 2012
Investment	\$364,000	\$200,000
% Rent	16%	12% (all sales)
EST. Sales	\$515,000 (2010)	\$2,100,000
MAG	\$80,000	\$120,000
Term	5 years (exp. 2013)	7 years (2012-18)
Year One Rev.	\$86,000	\$252,000

### **ECONOMIC IMPACTS AND BUSINESS PLAN OBJECTIVES:**

This lease and concession agreement will contribute to achievement of the Airport's business plan objective of "maximizing non-aeronautical net operating income" by generating increased non-aeronautical revenues. It is estimated that Beecher's Handmade Cheese will hire 16 employees.

### **STRATEGIC OBJECTIVES:**

The approval of this lease and concession agreement meets the following Airport concessions strategic objectives:

- Maximizes financial performance by meeting customer demand

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- Provides compelling customer and community value by bringing a locally-owned and well-known brand concept into the Airport
- Develops a new business opportunity for a proven restaurant operator to be successful in a new venue
- Provides additional opportunities for new employees and suppliers to this business

### **ENVIRONMENTAL SUSTAINABILITY AND COMMUNITY BENEFITS:**

The proposed new tenant is committed to re-use of as many fixtures left in the unit as possible in the new concept. New materials will be durable for an airport environment, and be manufactured and/or used in an environmentally sensitive fashion. The company also is committed to sustainable food practices by using organics and locally sourced produce and dairy products.

Beecher's Handmade Cheese at the Airport will hire 16 employees, and be managed by a current employee for which the airport location represents a promotional opportunity. All full-time employees are paid competitive salaries with benefits including subsidized medical, dental and 401K retirement plans.

Regus Business Center maintains 15 Puget Sound locations outside the Airport (including as a Port tenant at the World Trade Center on Alaskan Way) and has provided continued employment to the staff from the former Airport location with no loss of jobs.

### **TRIPLE BOTTOM LINE:**

The recently completed concessions stakeholder process examined the concessions program from a triple-bottom-line perspective. Stakeholders reinforced the value of a concurrent pursuit of positive economic, social equity and environmental stewardship outcomes in the selection of concessionaires. Staff believes that the addition of Beecher's Handmade Cheese to the Airport community of concessionaires is a choice consistent with these priorities.

### **ALTERNATIVES CONSIDERED AND THEIR IMPLICATIONS:**

Alternative 1: Approve the proposed lease and concession agreement. Staff believes that the interests of the Port and the traveling public are best served by this alternative. **This is the recommended alternative.**

Alternative 2: Allow the unit to remain vacant indefinitely. This is not the recommended alternative.

Alternative 3: Contract with the concessions program leasing agent to identify a tenant. This alternative would cause the unit to remain vacant for most or all of 2012. Staff believes that Beecher's Handmade Cheese is the right fit for the Airport under any scenario and approval of

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this proposed tenant allows the Airport to achieve occupancy to serve the traveling public before the busy summer season. This is not the recommended alternative.

### **OTHER DOCUMENTS ASSOCIATED WITH THIS REQUEST:**

Exhibit A: PowerPoint

Exhibit B: Map of Location

Exhibit C: Fact Sheets on Beecher's Handmade Cheese

Exhibit D: Draft Lease Agreement

### **PREVIOUS COMMISSION ACTIONS OR BRIEFINGS:**

None.