

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

**COMMISSION AGENDA**

**Item No.** 5b

**ACTION ITEM**

**Date of Meeting** June 5, 2012

**DATE:** May 25, 2012

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

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

**SUBJECT:** Request to execute a 2-year lease option for Massage Bar Inc. in Concourse C and North Satellite at Seattle-Tacoma International Airport

**ACTION REQUESTED:**

Request Commission authorization for the Chief Executive Officer to execute one two-year lease option as provided for in the Lease and Concession Agreement with Massage Bar Inc. The total lease term, if the option is exercised, is seven years.

**SYNOPSIS:**

A five-year lease agreement between the Port and Massage Bar Inc., an Airport Concessions Disadvantaged Business Enterprise (ACDBE), was executed in 2007. This lease agreement includes the option for two additional two-year lease term extensions. Staff recommends exercising one two-year option based on the solid, consistent performance of this tenant in meeting the needs of the traveling public. The total lease term would be seven years. During the next two years, staff will work with its third-party planning and leasing support team to recommend whether to exercise the second two-year lease option or suggest another course of action for this business opportunity when the Massage Bar lease expires.

**BACKGROUND:**

Massage Bar Inc. currently operates one 1,310 square foot storefront location in Concourse C (Exhibit A: Concourse C and North Satellite locations) across from the Horizon departure gates, and one kiosk location in the North Satellite. When Massage Bar began providing massage services to Sea-Tac travelers back in 1992, the concept was considered an experiment because there were no other providers of massage services in airports. The *New York Times* recently profiled Massage Bar as the pioneer in airport massage.

Massage Bar was founded by massage therapist Cary Cruea, a Seattle resident and certified ACDBE. In the last federal reporting year 2010-2011, Massage Bar represented 4.7% of the

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Airport's total ACDBE sales. The company currently employs 48 licensed massage therapists who work between 15-40 hours per week, which is a typical varied schedule for a massage therapist. Some employees combine work at Massage Bar with their own private practice. In most environments, massage therapists are considered independent contractors or sole proprietors; however, staff at Massage Bar are company employees. The company pays payroll taxes and offers fully paid or subsidized medical, dental and other benefits. The company has many tenured employees with over 10 years of employment with Massage Bar.

After 20 years at the Airport, Massage Bar has an extremely loyal local following. The success of the Massage Bar Frequent Massage punch card program illustrates the dedication of their customers. Every day, Massage Bar accepts 5-6 punch cards that provide the traveler with a free massage after 10 paid massages. Massage Bar typically performs 200-350 chair massages per day. Some Concourse C Massage Bar customers are frequent Horizon commuters that may visit two or three times a week. Both the storefront and kiosk locations are ideally suited for serving the short-haul traveler.

The market void in airport massage back in 1993 allowed Massage Bar the ability to gain a footing in multiple airports. Today, Massage Bar is located in eight airports, including Boise International Airport and Sacramento International Airport.

There are only two other competitors within this market segment. One larger company is headquartered in New York City and operates 34 U.S. airport locations and three in Europe. The other company is headquartered in Paris, France. It operates 26 European and five U.S. airport locations, including Boston Logan International and Baltimore Washington International Airport. Although both of these firms offer similar quality services, there is no reason to believe that they would provide higher revenues or a superior experience for the Seattle traveler than the local alternative.

With the execution of the two-year lease option, Massage Bar would be under a lease and concession agreement until the middle of 2014. For this reason, it is easily accommodated in the current master planning work for the future of the concessions program in 2015 and beyond. Although its expiration will be close to the time the majority of other concessions leases will expire, it is one of only two storefront passenger service concessions.

The other service concession, butter LONDON (manicures) is located adjacent to Massage Bar. Massage Bar derives significant synergies from this proximity due to their complementary services. Massage Bar also will be located next to the future Beecher's Handmade Cheese, expected to open in September. Food service in the immediate proximity is an offering that Massage Bar eagerly anticipates. For the Airport, these businesses will become a 'street' of desired local concepts at the head of Concourse C.

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### **FINANCIAL IMPLICATIONS:**

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

The financial benefit to the Port with regard to sales performance and percentage rent is commensurate with the U.S. airport market, i.e., other airports are seeing similar levels of sales performance and receiving similar percentage rents. The summary below outlines the most recent annual performance and financial return from the operation.

<b>Terms</b>	<b>Massage Bar</b>
Store Open	June 27, 2007
Initial Investment from Lessee	\$462,000
Term Length	5 years with two 2-year options
2011 Sales	\$1.9 million
% Rent	12% of gross sales from massage services 15% of gross sales from other related retail
Minimum Annual Guarantee (MAG)	The tenant guarantees 85% of the previous year's rent payments to the Port, payable monthly.
Marketing	0.5% of gross sales to joint concessions marketing fund not to exceed \$24,000 annually.
Storage	94 square feet of storage at \$7.75 per square foot
2011 Port Revenue	\$261,500

### **STRATEGIC OBJECTIVES:**

The approval of this lease option meets the following Port strategic objectives:

- Maximizes financial performance by meeting customer demand for massage services.
- Provides compelling customer and community value by retaining a locally-owned and operated airport brand concept at the Airport.
- Supports business opportunity for a proven local small business operator that has proven to be successful in the airport environment.
- Continues to provide opportunities for new employees and suppliers to this business.
- Massage Bar Inc. supports the Airport's achievement of its federally mandated ACDBE participation requirement.
- Massage Bar Inc. supports 48 local full and part-time employment opportunities at the Airport location. In addition, the Seattle headquarters office employs seven full-time employees.

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### **ENVIRONMENTAL SUSTAINABILITY:**

- The interior of Massage Bar's Concourse C unit was designed and built as a 'green build' to the greatest degree possible with cork floors, bamboo woods and recycled glass tiles. The unit is in excellent condition after five years with regular maintenance. There is an environmental lifecycle benefit with a continued lifespan for this investment.

### **BUSINESS PLAN OBJECTIVES:**

This concession will contribute to achievement of the Airport's business plan objective of "maximizing non-aeronautical net operating income" by generating estimated non-aeronautical revenues of nearly \$600,000 for the two-year option period.

Per Federal Aviation Administration rules, non-aeronautical revenues must be retained for use at the Airport. These revenues are critical to the daily operations, on-going maintenance, and future development of the Airport, as well as to the economic vitality of the Puget Sound region.

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

- Do not execute the two-year lease option for Massage Bar and close the unit at the end of its lease. It is unclear what other potential use would better serve the traveling public, therefore an analysis would be conducted to determine another use. This is not the recommended alternative.
- Place this tenant's lease and concession agreement in month-to-month status until the concessions third-party leasing agent can determine if another competitor to Massage Bar would be a better candidate for this passenger service. This is not the recommended alternative.
- Execute the two-year lease option for Massage Bar to remain in business until mid-2014. During the next two years, staff will analyze the future of this business concept at the Airport and make a recommendation to be included in the future Concessions Master Plan. **This is the recommended alternative.**

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

Exhibit A: Concourse C and North Satellite locations.

Exhibit B: May 2, 2012, article in the *New York Times*.

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

None.