

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

**COMMISSION AGENDA**

**Item No.** 5c

**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 butter LONDON Inc. in Concourse C 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 butter LONDON Inc. The total lease term, if the option is exercised, is seven years.

**SYNOPSIS:**

butter LONDON provides manicure and pedicure services to the traveling public along with retail sales of their own exclusive line of environmentally friendly nail lacquers and other related products. A five-year lease agreement between the Port and butter LONDON, Inc. was executed in 2007. This lease agreement included 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 with the option would be seven years. During the next two years, staff will work with its third party concessions planning and leasing support team to recommend whether to exercise the second two-year option or suggest another course of action for this business opportunity when the butter LONDON lease expires.

**BACKGROUND:**

butter LONDON Inc. currently operates one 908 square foot storefront location in Concourse C (Exhibit A: Concourse C location) across from the Horizon departure gates. When butter LONDON began providing manicure/pedicure service to Sea-Tac travelers in 2005, the concept operated out of a small kiosk location on Concourse B. The response to the availability of this personal service was tremendous and demonstrated an obvious steady demand for manicures/pedicures in the Airport environment.

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butter LONDON was founded by Seattle resident Sasha Muir who developed the concept with the British flair of her native United Kingdom. The firm is a small company headquartered in Seattle, and was initially funded by multiple local investors.

At the Airport location, the company currently employs 11 full-time and 5 part-time licensed nail technicians. The company pays payroll taxes and offers medical, dental and other benefits. The company has many tenured employees who have been with butter LONDON since it started in 2005. The butter LONDON administrative office and distribution center located in South Seattle also employs 36 full-time and 2 part-time employees. These employees support both the Airport operation and their growing wholesale business.

butter LONDON is extremely popular with travelers, particularly travelers on short-haul Horizon departures in its immediate vicinity. butter LONDON is one of few businesses in the Airport that realized an increase in sales during the 2008-2009 recession, and achieved its highest sales ever in 2011. In fact, butter LONDON broke the \$1 million mark in sales in 2011, which was approximately twice the sales estimated in their original pro forma for their fifth lease year. Sales year-to-date are up more than 15% over 2011. Recently, butter LONDON added sought-after eyebrow waxing and shaping to their services, and a new line of matching lip colours to their product line.

During the two years that butter LONDON operated from a small kiosk, the company already established a local following with a surprisingly broad appeal. Approximately 20% of butter LONDON's clientele are male travelers. In 2007, as the outcome of a request for proposals process, butter LONDON was chosen to operate a storefront manicure/pedicure location over the only other airport manicure provider headquartered in Miami, Florida. This other provider has eight locations in the U.S., although none are located west of Dallas-Fort Worth International Airport. butter LONDON was deemed best able to provide the Port with a reasonable financial return while providing both local business opportunity and a quality service experience for the traveling public.

Manicure/pedicure services in an airport environment are not comparable to a typical street-side service. Utilities and infrastructure at the Airport are very expensive and nearly cost prohibitive for the installation of typical water-supplied manicure/pedicure stations. Also the volumes of customers present sanitary issues with the traditional nail spa equipment. Nail lacquer and other vapors are not acceptable for the comfort of all travelers. And notably, most customers have 20 minutes or less for their service. In response to these particular requirements, butter LONDON developed its signature line of environmentally-friendly, non-toxic "3 Free" nail lacquers (no formaldehyde, no toluene, no DBP) and proprietary waterless nail services. butter LONDON products provide a sanitary, high quality treatment without the need for soaking in water. Their nail lacquers dry in nearly half the time of other nail polishes.

A significant part of butter LONDON's success at Sea-Tac is the result of the company's success in selling their products through other retailers. butter LONDON's products now are sold in

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Nordstrom and Macy's stores nationwide. Numerous other local retailers also sell butter LONDON's products. Travelers who develop a loyalty to butter LONDON's nail lacquers take advantage of the opportunity to receive service in its salon at the Airport.

With the execution of the two-year lease option, butter LONDON 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. Although its expiration will be close to the time that the majority of other concessions leases will expire, it is one of only two storefront passenger service concessions.

The other service concession, Massage Bar, is located adjacent to butter LONDON. butter LONDON derives significant synergies from this proximity due to their complementary services. butter LONDON also will be near to the future Beecher's Handmade Cheese. For the traveler who wants to purchase a coffee or food before getting a manicure or pedicure service, this addition will be a welcome amenity. For the Airport, these three locations will become a 'street' of desired local businesses at the head of Concourse C.

### **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 most recent annual sales performance and financial return from the operation.

<b>Terms</b>	<b>butter LONDON</b>
Store Open	June 29, 2007
Initial Investment from Lessee	\$323,000
Term Length	5 years with two 2-year options at the discretion of the Port
2011 Sales	\$1,042,241 (+16% over 2010)
% Rent	Tiered rent structure: 13% on gross sales less than \$300,001.00 per year 13% on gross sales less than \$400,001.00 per year 14% on gross sales less than \$500,000.00 per year 14.5% on gross sales in excess of \$500,000 per year Average rent: 14%
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.

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Storage	94 square feet of storage at \$7.75 per square foot
2011 Port Revenue	\$135,500

### **STRATEGIC OBJECTIVES:**

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

- Maximizes financial performance by meeting customer demand for manicure/pedicure services and related retail products.
- Provides compelling customer and community value by retaining a locally-owned and operated airport brand concept at the Airport.
- Supports a business opportunity for a 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.
- The tenancy of butter LONDON is consistent the Port's goal of creating opportunities for local small businesses.
- butter LONDON Inc. supports 16 full and part-time jobs at the Airport, and another 38 full and part time jobs at the company's Seattle headquarters office and distribution center. In addition, the Airport location promotes butter LONDON's line of mainstream retail products and indirectly supports more local jobs.

### **ENVIRONMENTAL SUSTAINABILITY:**

- The interior of butter LONDON's Concourse C unit was designed and built as 'green build' to the greatest degree possible. It is unique with its exposed ceiling infrastructure and chandelier lighting. The unit is in excellent condition after 5 years and 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 approximately \$300,000 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.

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

- Do not execute the 2-year lease option for butter LONDON 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 third-party leasing agent can determine if another competitor to butter LONDON would be a better candidate for this passenger service. This is not the recommended alternative.
- Execute the 2-year lease option for butter LONDON 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 location.

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

None.