

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

**COMMISSION AGENDA**  
**ACTION ITEM**

**Item No.** 5b  
**Date of Meeting** November 27, 2012

**DATE:** November 15, 2012

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

**FROM:** James R. Schone, Director, Aviation Business Development  
Jolene Culler, Senior Property Manager, Aviation Properties

**SUBJECT:** Lease Agreement and Concession Agreement between the Port of Seattle and Sixt Rent A Car

**Amount of This Request:** N/A

**Source of Funds:** N/A

**Est. State and Local Taxes:** N/A

**Est. Jobs Created:** 21

**Est. Total Project Cost:** N/A

**ACTION REQUESTED:**

Request Port Commission authorization for the Chief Executive Officer to execute a lease agreement with a 30-year term and a concession agreement with a 10-year term between the Port of Seattle and Sixt Rent A Car substantially consistent with the terms described in this memorandum and the attached agreements.

**SYNOPSIS:**

On May 17, 2012, the Consolidated Rental Car Facility (CRCF) opened at Seattle-Tacoma International Airport (Airport) on the corner of International Boulevard (State Route 99), and South 160<sup>th</sup> Street. This facility supports all Airport-related rental car operations at one location, thereby providing a more efficient and equal, yet competitive, operating environment for the rental car companies. All rental car companies sign a lease agreement, focused on lease terms and operational rules for the facility and associated financial obligations, and a concessions agreement, focused on the rights granted to the rental car companies to operate from the facility and associated fees, as part of their business deal with the Port.

**BACKGROUND:**

Following a competitive request for qualification (RFQ) process in 2008, and a competitive bid process in 2010, eleven rental car brands were approved to operate at the CRCF. The selection process was based on their concession bid, company financial strength, rental car operations experience, and Seattle airport market share.

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In the Seattle airport market, approximately 98% of the rental car market is comprised of 10 companies that have greater than two percent market share. In order to accommodate rental car companies new to the Seattle market or existing companies with less than two percent market share, the facility was designed with a shared occupant Small Operator Area (SOA).

Prior to designing the space, Port staff asked the current off-Airport operators if they were interested in operating from the facility. None of them were. Staff also researched other airports that had existing SOAs to determine how they were working. Based on this research and recognition that there could never be certainty about the exact number of small company operators to expect, the SOA was designed and built with space for three small operators, with the understanding that it could be expanded when space in the facility is reallocated at the 10-year mark. The tenant improvements in the SOA were built by the Port, and the small operators reimburse the cost of the capital improvements via a separate rent payment. Port staff continues to work with the existing off-Airport operators to make sure they, and any new entrant, can operate off-site if they want to be in the market, but not in the CRCF.

Currently there are two small operators, E-Z Rent A Car, which submitted a bid and qualified as a small operator during the initial RFQ and bid phase, and Payless Car Rental, which submitted a bid in February 2011 and began operating from the CRCF when it opened in May 2012.

After the CRCF opened, staff received inquiries from two companies regarding the opportunity to lease the one remaining SOA. The two companies were directed to submit proposal materials identical to the original RFQ, and were subsequently evaluated on a similar basis. After careful review, the selection panel unanimously recommended awarding the space to Sixt Rent A Car.

Sixt Rent A Car is a subsidiary of Sixt AG, a publicly traded rental car company based in Germany in continuous operation since 1912. In January, 2011, Sixt established its first North American operation in Florida, and since that time, they have continued to grow their business through leases at airports in Miami, Atlanta, and Phoenix. According to their financial statement, Sixt's 2011 net sales were \$2,039,313,534.

### **SCOPE OF AGREEMENT:**

#### **Term/Effective**

##### **Date:**

Lease Agreement is anticipated to be effective January 1, 2013. The lease term expires 30 years after June 1, 2012 (the First Agreement Year).

Concession Agreement term is 10 years from June 1, 2012.

##### **Premises:**

The CRCF is located on approximately a 23-acre site at the northwest corner of South 160<sup>th</sup> Street and International Boulevard in the City of SeaTac. The structure consists of five levels with a rectangular footprint. The area of each level of the CRCF IS approximately 400,000 square feet. Levels 1 through 4 provide space for vehicles that are ready for rental and

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for those vehicles being returned (Ready/Return Area). Each level has a Quick Turn Around (QTA) facility used for fueling and washing vehicles.

The fifth level consists of: 1) approximately 180,000 square feet of uncovered parking space not intended for rental activity; 2) an enclosed Customer Service Building (CSB) consisting of storefronts for the rental car companies; 3) consolidated busing drop-off and pick-up and staging areas; 4) restrooms, offices, storage, and utility spaces; 5) elevator and escalator cores; and 6) service, taxi drop off, short term parking and off-site shuttle drop-off and pick-up areas.

**Use:** Provide rental cars to Airport customers.

**Rent:** Per an appraisal secured on July 14, 2006, the land valuation was set at \$40.00 per sq. ft. with an 8.5% rate of return equating to \$3.40 per sq. ft. or approximately \$3.4 million in annual rent. The value of the site is adjusted annually by the Seattle/Tacoma/Bremerton Consumer Price Index (CPI) for the previous year by a minimum of one percent or a maximum of five percent. One additional fair market value adjustment based on an appraisal at year 16 with future annual adjustments subject to same CPI minimums and maximums as described above.

**Improvements  
by the Port:**

The Port provided the tenant improvements in the CSB for the small operators and recoups the costs through additional rent.

**Renewal Option:** None.

**Maintenance:** Lessee is responsible for day-to-day maintenance except for major maintenance and extraordinary repairs in excess of \$300,000, which are paid for with customer facilities charges. Major maintenance is defined as a repair that extends the useful life of an asset for more than three years, or the replacement of existing assets that are at the end of their useful life, both with a total value equivalent to the Port's capitalization policy, currently \$20,000.

**Utilities:** Lessee's responsibility.

**Security:** New entrants will provide 50 percent of the minimum allowable bid.

**Insurance:** General liability with single limit coverage of \$5 million and automobile liability with single limit coverage of \$5 million.

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**Grant of Concession:** Right to operate a rental car concession at the CRCF at the Airport subject to all the terms and conditions of the lease agreement.

**Concession Fees:** The minimum annual guarantee (MAG) for the SOA is \$59,000.00 per year, and this is what Sixt Rent A Car submitted as their first year MAG. For the second and subsequent years, the MAG shall be an amount equal to 85 percent of the total amount paid or payable by the concessionaire to the Port for the previous agreement year or the MAG for the first agreement year, whichever is greater.

The concessionaire will pay to the Port the higher amount of a percentage fee equal to 10 percent of gross revenues or their MAG.

### **FINANCIAL IMPLICATIONS:**

The concessionaire will pay to the Port the higher amount of a percentage fee equal to 10 percent of gross revenues or their MAG of \$59,000.00. For the second and subsequent years, the MAG will be an amount equal to 85 percent of the previous agreement year's total paid or payable amount. The revenues associated with this lease are included in the 2013 operating budget.

### **STRATEGIC OBJECTIVES:**

The CRCF and the associated lease and concession agreements support the Port's Century Agenda objective to meet the region's air transportation and tourism needs at the Airport for the next 25 years by: 1) increasing available public parking in the main Airport garage (through the move of the rental car companies who were operating on Floors 1 and 2 to the CRCF); 2) resolving the capacity constraints that existed for the five rental car companies that operated from the garage; 3) improving facilities for all rental car companies; 4) reducing roadway congestion by moving rental car returns off the North Airport Expressway and decreasing the number of shuttles the rental car companies have to make to their off-site facilities; and 5) providing a convenient, alternative, and LEED-Silver-certified location in which customers rent cars and rental-car employees work.

### **ENVIRONMENTAL SUSTAINABILITY:**

The CRCF was designed and built as a green building following LEED guidance. The consolidated clean busing system will reduce roadway congestion and emissions. Port staff will be working with the rental car companies to explore ways to further green the operation of the facility.

### **BUSINESS PLAN OBJECTIVES:**

This lease supports the Airport's strategy to maximize non-aeronautical net operating income by increasing available public parking and supporting growth in rental car operations.

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### **TRIPLE BOTTOM LINE SUMMARY:**

The development of the CRCF provides a long-term solution for rental car operations at the Airport that provides the region with the economic benefit of the Airport rental car market, insures that there are no adverse environmental or community impacts, and supports the Port's small business initiative by providing the small rental car companies (companies with less than two percent market share) a distinct SOA in the customer service building lobby and the first floor from which they will operate.

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

- Reject the proposed lease agreement and concession agreement with Sixt Rent A Car, and require a new competitive bid process. This alternative is not recommended.
- Proceed with the approval of the lease agreement and concession agreement to Sixt Rent A Car. The Port and the rental car companies negotiated terms that reflect our mutual interests as well as a suitable financial return to the Port. **This is the recommended alternative.**

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

- Copy of Rental Car Facility Lease Agreement.
- Copy of Rental Car Facility Concession Agreement.

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

- May 13, 2008, the Commission authorized execution of Lease Agreements with the majority of the existing rental car companies.
- February 9, 2010, the Commission authorized execution of the Concession Agreements with the majority of rental car companies.