

COMMISSION AGENDA MEMORANDUM

ACTION ITEM

Date of Meeting June 23, 2020

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Item No.

DATE: April 1, 2020

TO: Stephen P. Metruck, Executive Director

FROM: James Jennings, Director – Aviation Business and Properties

Bonnie Darch, Property Manager – Aviation Business and Properties

SUBJECT: Term Lease for American Express for the Operation of an Exclusive Lounge

ACTION REQUESTED

Request Commission authorization for the Executive Director to execute an Airport Term Lease Agreement substantially as described in this memorandum with American Express Travel Related Services Company, Inc. (Amex) of approximately 13,700 square feet and located in the Central Terminal at Seattle-Tacoma International Airport (SEA). The proposed lease term is for ten years with one five-year renewal option.

EXECUTIVE SUMMARY

The Amex Centurion Lounge is a high-end premium lounge, which has established itself as an industry benchmark in airports world-wide and is seen as a significant passenger service amenity for large-hub airports. Port staff has been negotiating in good faith with Amex to lease a new 13,700-square-foot unimproved space for an exclusive airport lounge. This space is located directly above the food court on the South Mezzanine Level of the Central Terminal (general location previously known as the "Flight Deck" or more recently CT-24MZ). After significant due diligence conducted by Amex and Port staff, an agreement has been reached by both parties for Amex to construct a trademark Centurion lounge. Costs associated with the construction of needed improvements will be borne by Amex. Amex's anticipated schedule is to have design completed in late 2020, construction to start in early 2021, and completion and lounge opening in late 2021. The first year of the lease will generate over \$3 million in non-aeronautical revenue to the Port, which is incrementally \$2 million over their current lease revenue.

<u>JUSTIFICATIO</u>N

The proposed Amex mezzanine level location was previously part of the Airport Dining and Retail's (ADR's) Lease Group 4A. For various reasons, the agreement for this location did not get executed. As staff pondered whether to simply repost the challenging second-level location in Lease Group 5, it was determined to instead offer an expanded footprint to Amex for their lounge concept.

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The rationale for offering this upper level mezzanine location to Amex in lieu of reposting as a food and beverage location was threefold. First, upper floor locations are inherently a challenge for traditional sit-down food and beverage locations. Other airports have struggled with poor performance, as well as some concept failures from stand-alone independent sit-down restaurants located on upper floors. The challenges to success are primarily due to a lack of passengers' line-of-sight and unwillingness to make the extra effort to find a second-story access point. Conversely, a second-story lounge concept is generally considered "exclusive" and even "desirable" as passengers are typically willing to seek out a premium lounge destination location. Next, Amex is anticipated to be displaced from their existing Concourse B lounge due to the anticipated realignment of airlines linked with the opening of the International Arrivals Facility (IAF). Lastly, Amex's lounge concept will fully utilize the entire footprint of the upper-level mezzanine floor plate, whereas the initial food and beverage offering only utilized a third of the floor plate, essentially the publicly visible portion. The bottom line from a space utilization perspective, is that we believe the viability of this upper level location is best suited for Amex, who is uniquely positioned to utilize this central location because their passengers are made up of multiple airlines and are not exclusive to a single concourse or satellite.

Staff has had multiple discussions related to Amex's approach to constructing their tenant improvements, and staff have strongly encouraged they consider a Project Labor Agreement (PLA) as part of their procurement. Amex has indicated they are willing to consider it but are not in a position to make a commitment at this point in time. They have committed to abide by Port's Resolution 3725 requirements, including paying prevailing wages, and have done additional PLA due diligence with their project management consultant and been put in touch with the Port's Manager of Construction Labor Group to better understand the Port's PLA process.

In light of the wide-spread economic uncertainties related to COVID-19, Port staff have recently checked in with Amex on the status of this lease and project. Although they have indicated that they are evaluating the potential impact of the COVID-19 crisis on their overall business model, Amex leadership still supports proceeding with the SEA project and lease at this time. No one knows how long COVID-19 will impact passenger traffic levels, and the timing of a potential recovery to previous passenger levels, but both Amex and the Port would like to continue forward with this mutually beneficial lease and project.

DETAILS

The key lease terms are:

Premises: Approx. 13,700 square feet on the Mezzanine Level on the south

side of the Central Terminal plus a small footprint (148 sf) below

the new elevator for a lobby/queuing area.

Term: 10-year lease, one 5-year option.

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Gross Rent: \$220 per square foot per year for first five years, CPI adjustment at

year six for second five years, and year 11 if option is exercised.

Tenant Capital Investment: \$16.5 million

Port Capital Investment \$0

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Alternative 1 – Do not approve the proposed lease

Pros:

- (1) Space would be available for a future alternative use and lease.
- (2) Space could be utilized for a Port or other non-commercial use.

Cons:

- (1) The Port would likely have to invest additional money to facilitate an alternate lease or use.
- (2) Risk that space could remain vacant / unleased for an unknown period of time, with resulting lack of revenue stream.
- (3) Could further delay the anticipated realignment of airlines to better align with the opening of the International Arrivals Facility (IAF).

This is not the recommended alternative.

Alternative 2 – Approve proposed Amex lease.

Pros:

- (1) Approval of a ten-year lease provides a level of certainty and commitment for both the Airport and Amex.
- (2) Consistent revenue stream for the Port.
- (3) Increase airport seating capacity and provide a passenger amenity that would improve the passenger experience.
- (4) Aligns with the Airport's post-IAF completion of Airline Realignment plans.

Cons:

(1) Not available for future lease or other uses.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

The lease of the entire premises by Amex will result in revenues to the Port in excess of \$30 million over the initial ten-year term. The first year of the lease will generate over \$3 million in non-aeronautical revenue to the Port, which is incrementally \$2 million over their current lease revenue. As there is no capital investment from the Port, all lease revenues are purely net income to the Port. New revenues will be realized upon operation of the new lounge, which is expected sometime in 2021.

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<u>ADDITIONAL BACKGROUND</u>

Amex is an existing tenant and excellent lounge operator. In their current space, they often keep a waiting list or turn customers away during peak times because they simply do not have the capacity. Fortunately, they have alternatives to offer these customers because they have good relationships with airline lounge operators and cross-promotional partnerships with ADR tenants that ultimately benefit our passengers. They are committed to SEA and serving our passengers with a world-class experience.

ATTACHMENTS TO THIS REQUEST

(1) Presentation slides

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

None