



**COMMISSION
AGENDA MEMORANDUM**

Item No.

6i

ACTION ITEM

Date of Meeting

June 23, 2020

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.

JUSTIFICATION

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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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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ADDITIONAL BACKGROUND

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