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COMMISSION

AGENDA MEMORANDUM Item No. 8e

ACTION ITEM Date of Meeting October 24, 2023

DATE: September 12, 2023

TO: Stephen P. Metruck, Executive Director

FROM: Jeffrey Wolf, Director, Aviation Commercial Management

Khalia Moore, Senior Manager, Airport Dining and Retail

SUBJECT: Lease and Concession Termination Agreements for Airport Dining and Retail (ADR)

locations affected by the Concourse C Expansion Project (CCE) and Concourse A Duty-Free (Duty-Free) Construction.

Amount this request: \$2,479,145

ACTION REQUESTED

Request Commission authorization for the Executive Director to (1) execute Termination Agreements; (2) payout where applicable Net Book Value (NBV) associated with the Termination Agreement; (3) execute new Lease and Concession Agreements for certain ADR Tenants impacted by the upcoming CCE and Duty-Free projects.

Termination Agreements

Termination Agreements associated with the CCE project effective January 8, 2024:

- Seattle Air Ventures JV, locations CC-03 (Hudson) and CC-04 (Elliot Bay Books)
- Terminal Getaway Spa Seattle, LLC location CC-05 (Terminal Getaway Spa)
- LaTrelle's Express, Inc., location CC-06A (Subway)
- Beecher's Homemade Cheese, LLC, locations CC-06B (Beecher's Handmade Cheese) and CC-07 (Beecher's Beer & Wine)
- Planewear, location CT-27 (Planewear)
- Host BF Foods, location CT-06 (Stonehouse Café)

Termination Agreements associated with the Duty-Free Expansion Project anticipated to be December 31, 2025 (actual termination date will be determined following the completion of the Duty-Free Request for Proposal process throughout 2024):

- Terminal Getaway Spa Seattle, LLC location CA-03 (Terminal Getaway Spa)
- InMotion SEA, LLC location CA-07 (InMotion Entertainment)
- Stellar Bambuza SEA, LLC location CA-09 (Swarovski)

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NBV Amounts

NBV buyout Amounts for the applicable Lease and Concession Agreements broken out by project impact are as follows:

CCE Project

Seattle Air Ventures JV: \$1,000,318

Terminal Getaway Spa Seattle, LLC: \$ 482,756

Total Concourse C Expansion Buyout \$1,483,074

Concourse A Duty Free

InMotion SEA, LLC: \$ 211,155

Stellar Bambuza SEA, LLC: \$ 402,008

Terminal Getaway Spa Seattle, LLC: \$ 382,908

Total Concourse A Duty-Free Buyout \$ 996,071

Total Buyout \$2,479,145

New Lease and Concession Agreements

New Lease and Concession Agreements associated with the CCE project:

- Planewear: Replaces the current location, CT-27, impacted by CCE construction.

New Lease and Concession Agreement associated with the Concourse A Duty-Free Expansion Project:

- SeaTac Bar Group, LLC replaces the impacted location, CA-04
- Sun's Inc. replaces the impacted location, CA-06

EXECUTIVE SUMMARY

CCE Project:

On March 10, 2020, April 12, 2022, and September 26, 2023, Commission was provided a public briefing on the status of the Concourse C Expansion project. In addition, on September 26, 2023, Commission was briefed in 2:2:1 on the release of an RFP for the new ADR locations being created as part of the CCE project as well as additional locations in areas surrounding Concourse C.

As construction is anticipated to begin in January of 2024 for CCE, early termination of the affected spaces is required. Affected locations that will be required to permanently close due to this construction project include (lease term in parentheses):

On February 14, 2023, Commission authorized a Tenant Reimbursement Agreement with Planewear, LLC to relocate their space from CT-27 to CT-09. This request is specifically for the

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Executive Director to execute a new Lease and Concession Agreement for Planewear in the new location.

Space Tenant Location Contract Term

Status

Number Name Name Expiration

CC-03 Seattle Air Ventures, JV Hudson December 31 ,2027 NBV Buyout

CC-04 Seattle Air Ventures, JV Elliot Bay Books December 31 ,2034 NBV Buyout

CC-05 Terminal Getaway Spa Seattle Terminal Getaway Spa September 30, 2031 NBV Buyout

CC-06A Beecher's Handmade Cheese Beecher's Handmade Cheese December 31 ,2023 Natural Expiration-No Buyout

CC-06B Latrelles Express, Inc. Subway December 31 ,2023 Natural Expiration-No Buyout

CC-07 Beecher's Handmade Cheese Beecher's Beer and Wine December 31 ,2023 Natural Expiration-No Buyout

CT-06 Host BF Foods Stonehouse Cafe December 31 ,2023 Natural Expiration-No Buyout

CT-27 Planewear Planewear December 31 ,2034 Replacement Space

Concourse A Duty-Free Project:

On October 26, 2021, Commission authorized the completion of a Project Definition Document (PDD) for the Concourse A Duty-Free Project as well as authorized the release of a Request for Proposal (RFP) to select a Duty-Free Operator.

The remaining term of the impacted areas is as follows:

Space Tenant Location Contract Term

Status

Number Name Name Expiration

CA-03 Terminal Getaway Spa Seattle Terminal Getaway Spa Seattle September 30, 2034 NBV Buyout

CA-04 Sun's Inc. Manchu Wok December 31, 2026 Replacement Space

CA-06 Seatac Bar Group, LLC Africa Lounge December 31, 2026 Replacement Space

CA-07 InMotion SEA, LLC InMotion Entertainment June 30, 2031 NBV Buyout

CA-09 Stellar-Bambuza SEA JV Swarovski January 31, 2031 NBV Buyout

The construction of the Concourse A Duty-Free Expansion is anticipated to begin in Q4 2025/Q1 2026, therefore early termination of these impacted locations is required. Per the Lease and Concessions Agreement for CA-03, Terminal Getaway Spa, CA-07, InMotion Entertainment and CA-09, Swarovski, the Port is required to pay Net Book Value of the initial investment if the space is reclaimed prior to the natural expiration of the lease.

As part of the Lease and Concession Agreement Amendments dated June 22, 2016, for spaces CA-04, Manchu Wok and space CA-06, Africa Lounge, the Port is required to provide a new location should the Port reclaim the space prior to the natural termination of the agreement.

This request is for the Executive Director to execute new Lease and Concession Agreements for replacement space for SeaTac Bar Group, LLC and Sun's Inc.

Net Book Value Payout:

As part of the early termination, the Port is required to reimburse the affected tenants the remaining Net Book Value for their space based on their initial investment. In some cases, the

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affected tenants' investments have been fully amortized for their location (Stonehouse Café)

therefore a Net Book Value reimbursement is not required and in other cases the natural contract expiration is December 31, 2023 (Beecher's, Beecher's Beer and Wine, and Subway)

JUSTIFICATION

As stated in previous briefings and authorizations to Commission, the completion of both the Concourse A Duty-Free Expansion and the Concourse C Expansion projects will augment the overall ADR program by providing more offerings to various passenger demographics, provide new opportunities for businesses at the airport and enhancing the overall customer experience. Although permanently closing locations within the airport is not always ideal, staff did consider all options before seeking authorization for these projects.

Staff has committed to providing the affected tenants a least sixty (60) days' notice before termination and closure of their location. Staff will delay the closures of the units until there is certainty from the general contractor that work is to begin: anticipated closure for Concourse C Expansion is currently January 2024, and Q4 2025 for Concourse A Duty Free. Staff has worked closely with the affected tenants and most of the concessionaire employees impacted by these unit closures will be retained within other locations operated by the impacted tenants. Any concessionaire employees not directly transferred to other ADR concession locations will be placed in the employee continuity pool with Port Jobs. Planewear, LLC; SeaTac Bar Group, LLC; and Sun's Inc. have been offered and have accepted comparable locations.

ALTERNATIVES AND IMPLICATIONS CONSIDERED

Staff is recommending the second, preferred alternative described below.

Alternative 1 – Relocate all affect tenants into the CCE Project

Cost Implications: \$0

Pros:

(1) Doesn't require the Port to undergo the RFP process.

Cons:

(1) This option inhibits the process of fair competition for leasing opportunities.

(2) Port will not get the benefits of a competitive process and innovations available with the RFP process.

(3) No new opportunities will be available to new businesses interested in entering or growing within the ADR program.

(4) This option does not follow the Lease and Concessions agreement stipulations for taking back space for operational need.

This is not the recommended alternative.

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Alternative 2 – Issue the Termination Agreements

Cost Implications: \$2,479,145

Pros:

(1) Follows the process identified in the affected tenants Lease and Concession Agreements

(2) Will not delay the start of construction for the CCE project.

Cons:

(1) May result in the loss of some staff currently within the airport.

This is the recommended alternative.

FINANCIAL IMPLICATIONS

Financial Analysis and Summary

Project cost for analysis \$2,479,145 (buyout amount)

Business Unit (BU) Airport Dining and Retail (ADR)/Commercial Management

Effect on business performance Included as part of the CCE and Duty-Free project costs

(NOI after depreciation)

IRR/NPV (if relevant) N/A

CPE Impact N/A

ATTACHMENTS TO THIS REQUEST

(1) Presentation

PREVIOUS COMMISSION ACTIONS OR BRIEFINGS

March 10, 2020

October 26, 2021

April 12, 2022

February 14, 2023

September 26, 2023

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