



AGENDA REPORT

PROPOSED ACTION: Ordinance: Approve and Authorize the Executive Director to Execute an *Amendment No. 1 to Space/Use Permit* with MRG Oakland LLC to Delete Unit T2-R-C2-1, Reduce the Footprint at Unit T1-R-1 and T2-R-C2-3, Reduce the Percent Rent from 15% to 10% at the Pre-Security Retail Unit T1-R-1 and T2-FB-1 and Re-Allocate \$350,000 in Port Capital Improvement Funds from Unit T2-R-C2-1 to Other Units Under Development by MRG Oakland LLC at Oakland San Francisco Bay Airport and Finding that the Proposed Action is Exempt Under the California Environmental Quality Act. **(Aviation)**

Submitted By: Craig Simon, Director of Aviation; Kristi McKenney, Executive Director

Parties Involved: MRG Oakland LLC a partnership of The Marshall Retail Group, Oaklandish, LLC and Silver Dragon Café, LLC, Las Vegas, Nevada

Amount: Operating revenue loss of \$88,800 in FY 2026.

EXECUTIVE SUMMARY: The Marshall Retail Group (Marshall) is a leading specialty retailer in the airport marketplace, operating in 46 airports nationwide. At Oakland San Francisco Bay Airport (OAK), Marshall has partnered with ACDBE operators Oaklandish, LLC and Silver Dragon Café, LLC to form MRG Oakland LLC (MRG) developing retail concepts featuring and highlighting the local culture, community and lifestyle of Oakland and the East Bay. In 2023, MRG was awarded a portion of OAK's retail program consisting of nine retail units featuring both pre-security and post-security news convenience units, specialty retail, high tech and automated specialty retail. Due to construction costs exceeding their budget, Port of Oakland (Port) Staff renegotiated certain lease terms and recommends that the Board adopt an ordinance to approve and authorize the Executive Director to execute an Amendment No.1 to *Space/Use Permit* with MRG. While the renegotiation of terms results in a loss of revenues for Unit T2-R-C2-1 (Oaklandish) of \$1,095,200 over the remaining term of the lease (through February 2035), it provides MRG a sustainable pathway forward for development of existing and remaining planned units and provides OAK with an opportunity to consider new revenue and/or passenger amenity improvements.

BACKGROUND & ANALYSIS

MRG entered into a Space/Use Permit (SUP) for retail and specialty retail development and operations at OAK effective January 1, 2024, through February 28, 2035. The SUP with MRG consists of nine retail units; MRG's retail units feature a mixture of news/convenience, specialty retail, high tech and Automated Specialty Retail located in both terminals, as well as both pre-security and post-security as depicted in Table 1. To date, MRG has completed development of the Jingle Town Depot, Roll East, Temescal Alley, Oakland Supply Co, and Oakland Square units.

Table 1: MRG Retail Units

Unit No.	Concept	Type of Unit	Development Status
T1-R-1	Mt. Diablo Market	News/ Convenience	Pending Board Approval
T1-R-G7	Jingle Town Depot	Automated Specialty Retail	Completed
T1-R-G12	Roll East	News/ Convenience	Pending Board Approval
T1-R-C1-1	Temescal Alley	Automated Specialty Retail	Completed
T2-R-G22	Oakland Supply Co.	Specialty Retail	Completed
T2-R-C2-3	InMotion	High Tech	Pending Board Approval
T2-R-C2-1	Oaklandish	Specialty Retail	Proposed Removal
T2-R-G27	Oakland Square	Automated Specialty Retail	Completed
T2-FB-1	I Fly OAK	News/ Convenience	Pending Board Approval

Due to construction costs exceeding MRG's budget, Port Staff and MRG negotiated the following revised terms:

1. Delete Oaklandish (Unit T2-R-C2-1);
2. Reduce Footprint at Mt. Diablo Market (Unit T1-R-1) and InMotion (Unit T2-R-C2-3);
3. Reduce Pre-Security Retail News/Convenience Rent at Mt. Diablo Market (Unit T1-R-1) and I Fly OAK (Unit T2-FB-1) from 15% to 10% Percent Rent; and
4. Re-Allocate \$350,000 in Port Capital Improvement Funds from Oaklandish (Unit T2-R-C2-1) to other MRG Units Under Development

Deletion of Oaklandish (Unit T2-R-C2-1)

The Oaklandish unit is located at the Terminal 2 connector and was envisioned to be a specialty retail space created inside this corridor. Since this location is currently an undeveloped concession space, developing this unit will require a significant capital investment from MRG and their partners, along with a Port contribution of \$645,000. Given the construction costs involved for both MRG and the Port, both parties have

determined that MRG should surrender this retail space back to the Port. Functionally, this would have the least impact on OAK's passengers. Operationally, MRG will continue to honor its ACDBE partnership with Oaklandish, LLC by offering their merchandise at other retail locations.

Reduce Footprint at Mt. Diablo Market (Unit T1-R-1) and InMotion (Unit T2-R-C2-3)

Mt. Diablo Market is a news/convenience unit located in Terminal 1, pre-security and is approximately 1,250 square feet (SF). InMotion is a high tech unit located in Terminal 2, post-security and is currently 330 SF. MRG seeks to right-size the Terminal 1 pre-security Mt. Diablo Market unit by reducing the footprint from approximately 1,250 SF to approximately 210 SF and InMotion was envisioned to expand to 715 SF but is seeking to not expand the space remaining in the existing 330 SF. MRG has explored various designs, seeking creative options to reduce construction costs. However, while exhaustive efforts have been made, construction-related costs remain above MRG's budget, and MRG has been forced to seek alternatives. At both locations, MRG has committed to design and/or update the units in a manner that will be attractive to the public.

Reduce Pre-Security Retail News/Convenience Rent at Mt. Diablo Market (Unit T1-R-1) and I Fly OAK (Unit T2-FB-1) from 15% to 10% Percent Rent

MRG has both pre-security Retail locations at OAK: Mt. Diablo Market in Terminal 1 and I Fly OAK in Terminal 2. As part of OAK's overall retail program, news and convenience units are currently required to pay 15% percent of sales as rent. However, because most passenger sales are made in post-security units, MRG has requested that the Port consider reducing rent at these pre-security units. Port Staff is recommending a reduction of rent from 15% to 10% percent of sales while the annual Minimum Annual Guaranties (MAG) at each of these locations remain unchanged.

Re-Allocate \$350,000 in Port Capital Improvement Funds from Oaklandish (Unit T2-R-C2-1) to Other MRG Units Under Development

As part of the Port's efforts to support the Airport's retail concessions programs, the Board has previously delegated authority to the Director of Aviation to approve reimbursement for certain Port improvements. On December 14, 2023, under Ordinance No. 4738, the Board approved up to \$2.5 million be reimbursed to MRG for Port-related improvements, of which \$645,000 was previously allocated towards development of the Oaklandish unit. However, MRG now seeks to surrender the Oaklandish unit. Port Staff seeks to reallocate \$350,000 in Port capital improvement funds previously designated for the development of Oaklandish so that MRG may utilize these funds towards the development of their remaining units.

The renegotiation of terms with MRG represents an estimated loss of revenue for the Oaklandish unit of \$1,095,200 over the remaining term of this agreement as shown in Table 2.

Table 2: Oaklandish Estimated loss of Minium Annual Guarantee

Dates	Estimated Loss of Revenue
1/1/2025 to 6/30/2025*	\$(44,400)
7/1/2025 to 6/30/2026*	\$(88,800)
7/1/2026 to 2/28/2035	\$(962,000)
Total: 1/1/2025 to 2/28/2035	\$(1,095,200)

*Assumes adjusted MAG based on 80% enplanement level

OTHER FINDINGS AND PROVISIONS

ENVIRONMENTAL REVIEW

The proposed action was analyzed under the California Environmental Quality Act (CEQA) and was found to be:

- ☒ Categorically exempt under the following CEQA Guidelines Section:

Choose an item.15301 (Existing Facilities)

- ☐ "Common Sense" exemption under CEQA Guidelines Section 15061(b)(3).

☒ Other/Notes: Approving the Amendment No. 1 to Space/Use Permit with MRG LLC to operate retail and duty free services at Oakland Airport involves the operation and alteration of existing structures and facilities involving negligible or no expansion of existing or former use. CEQA Guidelines Section 15301 applies.

BUDGET

- ☐ Administrative (No Impact to Operating, Non-Operating, or Capital Budgets); OR

☒ Operating

☐ Non-Operating

☐ Capital

Analysis: Approval of the terms in the Agenda Report will result in a \$88,800 reduction in Aviation Concessions revenue from the FY2026 Adopted Budget.

STAFFING

- ☒ No Anticipated Staffing Impact.

- ☐ Anticipated Change to Budgeted Headcount.

Reason:

- ☐ Other Anticipated Staffing Impact (e.g., Temp Help).

Reason:

MARITIME AND AVIATION PROJECT LABOR AGREEMENT (MAPLA):

Applies? Yes (Tenant Project) – proposed action entails covered work in Aviation or Maritime areas above threshold cost requiring Port Building Permit.

- ☐ Additional Notes:

LIVING WAGE (City Charter § 728):

Applies?

Yes (Tenant) – proposed action entails at least \$50,000 in payments from a Maritime or Aviation tenant, licensee, and/or its subtenant/sublicensee employing at least 21 employees who spend at least 25% of their time on Port-related work.

- ☐ Additional Notes:

SUSTAINABLE OPPORTUNITIES:

Applies? Yes.

GENERAL PLAN (City Charter § 727):

Conformity Determination:

<p><u>Reason:</u> The proposed <i>Space/Use Permit</i> references the Board-adopted Resolution No. 20467: Resolution Implementing Port Sustainability Policy and incorporates a “Green Concessions Program” as detailed in the attached Exhibit “G”. In addition, Tenant Design Standards (also incorporated into the <i>Space/Use Permit</i>) contain detailed sustainability and LEED requirements.</p> <p>OAK’s Retail Program will require the Concessionaires to implement specific actions and investments related to: fixture selection, cleaning methods and products, construction and demolition waste management, energy efficiency and performance, food donation, HVAC equipment, indoor air quality, lighting, materials selection, resource use, service ware and supplies, waste reduction, waste receptacles, and water performance</p>	<p>Maritime/Aviation – proposed action conforms to policies for transportation designation of the General Plan.</p>
<p><u>STRATEGIC PLAN.</u> The proposed action would help the Port achieve the following goal(s) in the Port’s Strategic Plan:</p> <ul style="list-style-type: none"> <input checked="" type="checkbox"/> Capture Our Market and Grow the Economic Base <input checked="" type="checkbox"/> Modernize and Upgrade Infrastructure <input type="checkbox"/> Transition to Zero-Emissions and Build Climate Resilience <input type="checkbox"/> Maximize Land Use Value and Revenues <input type="checkbox"/> Workforce Training and Jobs Development <input checked="" type="checkbox"/> Create Opportunities for Local Businesses and Community Economic Development 	