

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: September 11, 2024

CAO File No. 0150-12749-0000

Council File No.

Council District: 11

To: The Mayor

From: Matthew W. Szabo, City Administrative Officer

Reference: Correspondence from the Los Angeles World Airports Board of Airport Commissioners dated July 18, 2024 and August 5, 2024; referred by the Mayor for a report on July 29, 2024

Subject: **RESOLUTION NO. 27994 AND PROPOSED PREMIER PASSENGER LOUNGE SPACE LEASE WITH VIRGIN ATLANTIC AIRWAYS LIMITED IN THE TOM BRADLEY INTERNATIONAL TERMINAL AT LOS ANGELES INTERNATIONAL AIRPORT**

RECOMMENDATION

That the Mayor:

1. Approve Los Angeles World Airports (LAWA) Board Resolution No. 27994 authorizing a proposed Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited in the Tom Bradley International Terminal at Los Angeles International Airport, consisting of a five-year term with a five-year extension option, which includes first year revenue of approximately \$1.3 million, and total revenues of \$7 million over the initial five-year period;
2. Adopt the California Environmental Quality Act (CEQA) determinations of the August 5, 2024 Board of Airport Commissioners (Board) Resolution 27994, that this action is exempt from the CEQA pursuant to Article III, Class 1(1) and 1 (18)(c) of the Los Angeles City CEQA Guidelines; and
3. Authorize the LAWA Chief Executive Officer, or designee, to execute the proposed agreement upon approval as to form by the City Attorney and approval by the Council.

SUMMARY

The Los Angeles World Airports (LAWA) Board of Airport Commissioners (Board) requests approval of its August 5, 2024 Resolution 27994 authorizing a proposed five-year term for the Premier Passenger Lounge Space with Virgin Atlantic Airways Limited (hereinafter referred to as "Virgin") for space in the Tom Bradley International Terminal (known as "TBIT") at Los Angeles International Airport (LAX). The lease agreement will generate at least \$1.3 million during the first full year of operation and approximately \$7 million over the five-year term of the lease, not including

annual rent escalations or additional rent that may be triggered by percentage rent and concession fees.

Approval of the proposed lease will allow Virgin to plan, develop, and operate a 4,401 square foot premier passenger lounge on Level 6 of the TBIT. The tenant has committed to investing the financial resources to refurbish the premises, which will be accessible to travelers in the TBIT once the work is completed.

The proposed lease has been approved as to form by the City Attorney. Pursuant to Charter Section 606 and Los Angeles Administrative Code Section 10.5, Council approval is required because the cumulative contract term exceeds five years. Our Office has reviewed the request and recommends approval.

BACKGROUND

Lounge Space Planning – Anticipating future leasing needs for airline lounges, LAWA staff issued an Expression of Interest (EOI) to all airlines operating in the TBIT to gauge their interest in leasing either existing or unoccupied lounge areas. Virgin was the sole respondent to the EOI, expressing its desire to lease available lounge space in the terminal. As a result, LAWA staff negotiated a lease agreement with Virgin.

On July 18, 2024 and August 5, 2024, the Board approved a LAWA staff report and Resolution 27994 requesting authority to execute a proposed Premier Passenger Lounge Lease with Virgin in the TBIT. The proposed lease includes an initial five-year term with an option for a five-year extension, allowing Virgin to develop and manage a lounge for its premium passengers. The new lease will increase LAWA's revenue by approximately \$1.3 million in the first year, and by a total of \$7 million over the initial five-year period. LAWA expects that the lounge will become operational in the first quarter of 2025.

Lounge Renovations – Per the terms of the agreement, Virgin is required to complete refurbishments of the lounge area within the first five months of executing the lease. The proposed plan projects a total renovation cost of approximately \$2 million, which will be fully covered at the sole expense of the tenant.

Passenger Lounge Amenities – Virgin's lounge will accommodate its elite and business class travelers, along with premium passengers from partnered airlines with complimentary offerings such as light snacks, Wi-Fi, and computer workstations. Additional features may include showers and private rooms.

LAWA Lease Revenues – Upon the rent commencement date, Virgin will begin paying LAWA the Board-approved base rent of \$303.77 per square foot per year (PSFPY) for the lounge area. Additionally, the payment structure stipulates that Virgin must pay 20 percent of the total gross sales generated from lounge concessions, plus the greater amount between 20 percent of the revenue collected from pay-per-use lounge access fees or \$6 per day for each pay-per-use passenger. In summary, Virgin is required to pay LAWA a share of the fees acquired from pay-per-

use entry to the lounge, either at \$6 per day or 20 percent of the overall revenue collected at the door.

Lounge Access and Revenue Opportunities - The lease allows Virgin to admit lounge guests from affiliated airlines, various membership programs, and passengers from non-affiliated airlines, including partner bank card holders, on a per-per-use basis. The pay-per-use option will allow passengers without lounge memberships to pay a fee to access the lounge as a walk-in guest. This operating model provides Virgin the opportunity to offset some operating costs by leveraging the lounge to serve both affiliated premium flyers as well as outside non-affiliated visitors. There are no estimates available for the potential pay-per-use volumes or associated revenue, however, the proposed revenue share structure will provide LAWA with increased revenues from lounge operations as passenger traffic rebounds from the pandemic.

CITY COMPLIANCE

Small Business Enterprise (SBE), Local Business Enterprise (LBE), Local Small Business Enterprise (LSBE), and Disabled Veterans Business Enterprise (DVBE) Participation - The City's Business Enterprise program participation requirements are not applicable to leases.

Charter Section 1022 – Lease agreements are not subject to the provisions of Charter Section 1022 on the use of independent contractors.

California Environmental Quality Act (CEQA) – The Department has determined that the issuance of permits, leases, agreements, gate and space assignments, and renewals, amendments or extensions thereof, or other entitlements granting use of existing airport facilities and office space, or its operations, is exempt from CEQA requirements pursuant to Article III, Class 1(1) and 1 (18)(c) of the Los Angeles City CEQA Guidelines.

The proposed lease agreement includes provisions to ensure compliance with applicable City Ordinances, contracting, and insurance requirements. The proposed lease will be executed upon approval as to form by the City Attorney and approval by the Council. In accordance with Charter Section 606 and Administrative Code Section 10.5(c), the agreement requires Council approval because the total term of the lease exceeds five years. Our Office recommends approval.

FISCAL IMPACT STATEMENT

Approval of the proposed lease between the Los Angeles World Airports and Virgin Atlantic Airways Limited will generate at least \$1.3 million in revenue to the LAX Revenue Fund in the first year and approximately \$7 million over the five-year lease term, excluding optional space, annual rent escalations, and additional percentage rent from other services. The actions of the proposed agreement comply with Los Angeles World Airports' adopted Financial Policies. Approval of the proposed lease will have no impact on the City's General Fund.

July 23, 2024

The Honorable Karen Bass
Mayor, City of Los Angeles
City Hall – Room 303
Los Angeles, CA 90012

ATTN: Heleen Ramirez, Legislative Coordinator
ATTN: Thomas Arechiga, Deputy Legislative Coordinator

LAX

Van Nuys

City of Los Angeles

Karen Bass
Mayor

**Board of Airport
Commissioners**

Karim Webb
President

Matthew M. Johnson
Vice President

Vanessa Aramayo
Courtney La Bau
Victor Narro
Nicholas P. Roxborough
Valeria C. Velasco

John Ackerman
Chief Executive Officer

RE: Proposed Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited in Tom Bradley International Terminal at Los Angeles International Airport

In accordance with Executive Directive No. 4, we are transmitting a copy of the specified board report for the Request for approval of the proposed Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited in Tom Bradley International Terminal at Los Angeles International Airport, for term of five years, with a five-year extension option, that will generate approximately \$1,200,000 in revenue in the first year and approximately \$6,000,000 over the initial five-year term, excluding annual rate adjustments.

City Council approval is required pursuant to Section 606 of the Los Angeles City Charter.

Sincerely,



Becca Doten
Chief of Staff

BD:MSA:ksf





23
Item Number
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Report to the BOARD OF AIRPORT COMMISSIONERS

Approver:

Dave Jones, Deputy Executive Director
Commercial Development Division

Reviewer:

Brian C. Ostler, City Attorney

John Ackerman, Chief Executive Officer

Meeting Date

7/18/2024

Needs Council Approval: ☒ Y

Reviewed for/ by	Date	Approval Status	By
Finance	5/17/2024	<input checked="" type="checkbox"/> Y <input type="checkbox"/> NA	JS
CEQA	5/31/2024	<input checked="" type="checkbox"/> Y	MO
Procurement	5/22/2024	<input type="checkbox"/> Y <input checked="" type="checkbox"/> Cond	BG
Guest Experience	5/21/2024	<input checked="" type="checkbox"/> Y	TB
Strategic Planning	5/16/2024	<input checked="" type="checkbox"/> Y	BNZ

SUBJECT

Request for approval of the proposed Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited in Tom Bradley International Terminal at Los Angeles International Airport, for term of five years, with a five-year extension option, that will generate approximately \$1,200,000 in revenue in the first year and approximately \$6,000,000 over the initial five-year term, excluding annual rate adjustments.

RECOMMENDATIONS

Management RECOMMENDS that the Board of Airport Commissioners:

1. ADOPT the Staff Report.
2. DETERMINE that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (1) and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines.
3. APPROVE the proposed Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited in Tom Bradley International Terminal at Los Angeles International Airport.
4. AUTHORIZE the Chief Executive Officer, or designee, to execute the proposed lease after approval as to form by the City Attorney and upon approval by the Los Angeles City Council.

DISCUSSION

1. Purpose

Approval of the proposed lease with Virgin Atlantic Airways Limited (Virgin) in the Tom Bradley International Terminal (TBIT) at Los Angeles International Airport (LAX) will allow for Virgin to refurbish and operate a lounge for its premium passengers.

2. Prior Related Actions/History of Board Actions

- None.

3. Background

The subject lounge has been vacant since November 2021 when the prior occupant ceased operations at LAX due to the COVID-19 pandemic. To plan for future leasing of the TBIT lounge spaces, in July 2022, Los Angeles World Airports (LAWA) staff released an Expression of Interest (EOI) to determine interest in leasing existing vacant lounge spaces. Virgin was the only respondent and requested to lease the 4,401 square foot lounge space.

4. Current Action/Rationale

The proposed lease has a five-year term, with one five-year option. Virgin must refurbish the demised premises at an estimated cost of approximately \$2 million during the first five months after execution of the lease, at which time the rent will commence.

The lounge may only be used to serve Virgin and its affiliated airlines' premium passengers, as well as passengers from approved membership programs, including partner bank card holders. Virgin must secure prior approval by the LAWA Chief Executive Officer to adjust the users that may access the lounge. If Virgin secures approval to adjust user access, the user fee would also provide similar per-passenger revenue to LAWA as other airline leases, as adjusted annually by the CPI.

Virgin will pay base rent at Board of Airport Commissioners-approved rates and pay concession fees from 20 percent of all revenues earned from the sale of goods and services in the lounge, and from fees collected from pay-per-use passengers accessing the lounge.

5. Fiscal Impact

Approval of the proposed lease will provide approximately \$1.2 million in revenue in the first full year and approximately \$6 million over the five-year term, excluding annual rate adjustments.

6. Alternatives Considered

- ***Take No Action***

Taking no action is not recommended. Not executing the proposed lease would result in the space continuing to be vacant, eliminating new lounge revenue to LAWA and

preventing the opportunity of a highly desired new premier passenger lounge amenity in TBIT.

APPROPRIATIONS

No appropriation of funds is required for this action.

STANDARD PROVISIONS

The proposed document(s) is/are subject to approval as to form by the City Attorney.

Actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 606.

August 5, 2024

The Honorable City Council
of the City of Los Angeles
(via email)

Subject: Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited

Enclosed for your consideration is the Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited that was approved by the Board of Airport Commissioners at its July 18, 2024 meeting. There is no impact to the General Fund.

LAX

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City of Los Angeles

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Mayor

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Karim Webb
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John Ackerman
Chief Executive Officer

RECOMMENDATIONS FOR CITY COUNCIL:

1. Adopt the determination by said Board that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1(1) and 1(18)(c) of the Los Angeles City CEQA Guidelines; and
2. Approve the five (5)-year Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited, with a five (5)-year extension option, covering space in the Tom Bradley International Terminal at Los Angeles International Airport; and
3. Concur with said Board's action on July 18, 2024, by Resolution 27994, authorizing the Chief Executive Officer, or designee, of Los Angeles World Airports to execute said Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited.

This document and its attachments are advisory only and do not constitute a complete and official submittal to the City Council. The official submittal, including this document and its attachments, will be submitted electronically to the City Council and the Council File Management System pursuant to Charter Section 606 via the City Clerk's website when the file is complete.

Very truly yours,



Grace Miguel, Commission Executive Assistant II
Board of Airport Commissioners Office
Los Angeles World Airports

Enclosures

cc: CAO (Airport Analyst), e-file
CLA (Airport Analyst), e-file



RESOLUTION NO. 27994

WHEREAS, on recommendation of Management, there was presented for approval, five (5)-year Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited, with a five (5)-year extension option, covering space in the Tom Bradley International Terminal at Los Angeles International Airport; and

WHEREAS, the subject lounge has been vacant since November 2021 when the prior occupant ceased operations at Los Angeles International Airport due to the COVID-19 pandemic; and

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WHEREAS, to plan for future leasing of the Tom Bradley International Terminal lounge spaces, in July 2022, Los Angeles World Airports (LAWA) released an Expression of Interest in order to determine interest in leasing existing vacant lounge spaces. Virgin Atlantic Airways Limited (Virgin) was the only respondent, and had requested to lease the 4,401 square foot lounge space; and

WHEREAS, Virgin must refurbish the demised premises at an estimated cost of approximately \$2 million during the first five (5) months after execution of the Lease, at which time the rent will commence; and

WHEREAS, the lounge may only be used to serve Virgin and its affiliated airlines' premium passengers, as well as passengers from approved membership programs, including partner bank card holders. Virgin must secure prior approval by LAWA Chief Executive Officer to adjust the users that may access the lounge. If Virgin secures approval to adjust user access, the user fee would also provide similar per-passenger revenue to LAWA as other airline leases, as adjusted annually by the Consumer Price Index; and

WHEREAS, Virgin will pay base rent at Board of Airport Commissioners-approved rates and pay concession fees from 20% of all revenues earned from the sale of goods and services in the lounge, and from fees collected from pay-per-use passengers accessing the lounge; and

WHEREAS, the Lease will provide approximately \$1.2 million in revenue in the first full year and approximately \$6 million over the five (5)-year term, excluding annual rate adjustments; and

WHEREAS, actions taken on this item by the Board of Airport Commissioners will become final pursuant to the provisions of Los Angeles City Charter Section 606;

NOW, THEREFORE, BE IT RESOLVED that the Board of Airport Commissioners adopted the Staff Report; determined that this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (1) and Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; approved the five (5)-year Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited, with a five (5)-year extension option, covering space in the Tom Bradley International Terminal at Los Angeles International Airport; and authorized the Chief Executive Officer, or designee, to execute said Premier Passenger Lounge Space Lease with Virgin Atlantic Airways Limited after approval by the Los Angeles City Council and approval as to form by the City Attorney.

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I hereby certify that this Resolution No. 27994 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Thursday, July 18, 2024.

A handwritten signature in blue ink, appearing to read "Grace Miguel", is positioned above the printed name.

Grace Miguel – Secretary
BOARD OF AIRPORT COMMISSIONERS