

RESOLUTION NO. 28275

WHEREAS, on recommendation of Management, there was presented for approval, Seventh Amendment to Concession Agreement LAA-8647 with DFS Group LP to amend the Base Rent terms for the Per International Passenger Payment element and Minimum Annual Guarantee element, covering duty-free merchandise concession at Los Angeles International Airport; and

WHEREAS, the amendment was requested by DFS Group LP (DFS) to provide temporary rent relief while international enplanements and duty-free spending remain lower than anticipated; and

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Mayor

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Commissioners**

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Chief Executive Officer

WHEREAS, in 2012, DFS was awarded a Concession Agreement (LAA-8647) to design, develop, construct, and operate duty-free concessions in all terminals at Los Angeles International Airport (LAX). The agreement requires DFS to sell traditional duty-free merchandise such as spirits and wine, fragrances, cosmetics, and tobacco products. In addition, DFS is required to operate high-end specialty stores offering internationally recognized brand-name merchandise. Pursuant to the agreement, DFS operates a duty-free concession program to support international passenger departures at LAX in Terminals 2, 5, 6, and 7, as well as a flagship operation in the Tom Bradley International Terminal (TBIT), including a new location in the West Gates at TBIT (West Gates) as of June 19, 2024; and

WHEREAS, since the COVID-19 pandemic, the airport concessions business environment has been challenging. The macroeconomics and travel recovery of high-spending travelers remain low compared to pre-pandemic levels in 2019, particularly for travelers from the People's Republic of China (PRC). Air traffic for PRC travelers remains 54% lower than in 2019 and sales from DFS' PRC customers are 63% lower than in 2019, while DFS' overall sales are down 26% versus 2019. At the same time, the costs of doing business at LAX have escalated due to record inflation, increasing capital expenditure for store renovations, and rising employee wages as required by the City of Los Angeles; and

WHEREAS, additionally, DFS' terms for its Minimum Annual Guarantee (MAG) rental payments have exacerbated the situation. The MAG will be the greatest of three annual amounts: the Floor Element amount, the Prior Year Element amount, or the Per International Passenger Payment (PIPP) Element amount. The PIPP formula originally used the total number of enplaned international passengers at LAX for a given year. As of July 1, 2022, the Fifth Amendment to Concession Agreement LAA-8647 changed the PIPP formula to use enplaned international passengers at TBIT only. The change was one of the MAG revisions under the Los Angeles World Airports (LAWA) Concessionaire Relief Program to address fiscal challenges brought on by COVID-19; and

WHEREAS, the amended PIPP formula is no longer aligned with where DFS generates sales at TBIT. Traffic and sales are separated between TBIT and West Gates. For the second half of 2024, TBIT had 49% of LAX international traffic but 90% of DFS sales, driven by the concentration of luxury goods. The West Gates had 21% of LAX international traffic but only 3% of DFS total sales. This results in DFS paying LAWA more per enplanement for West Gates than for TBIT; and

WHEREAS, lack of high-spending PRC customers and DFS' escalating MAG amounts have led to cumulative losses of more than \$50 million for DFS since 2023. As such, 25% of those losses were borne by DFS' three Airport Concessions Disadvantaged Business Enterprise partners; and



WHEREAS, to address those issues, LAWA and DFS agreed to the following changes:

- PIPP Element
 - Only include TBIT international traffic and exclude West Gates traffic
 - Effective April 1, 2025, until PRC annual traffic reaches 90% of 2019 PRC traffic
- MAG
 - Suspend for one year and three months from April 1, 2025, to June 30, 2026
 - Beginning July 1, 2026, the calculation resets to 90% of the prior year's rent; and

WHEREAS, with the expectation that duty-free sales will still rebound, albeit more gradually than previously anticipated, the revised PIPP Element will be contingent on PRC traffic; and

WHEREAS, the Amendment is expected to reduce LAWA's revenue by approximately \$11,000,000 per year until PRC annual traffic reaches 90% of 2019 levels; 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; further adopted staff's determination that the requested action is exempt from the California Environmental Quality Act (CEQA) pursuant to Article III, Class 1 (18)(c) of the Los Angeles City CEQA Guidelines; approved the Seventh Amendment to Concession Agreement LAA-8647 with DFS Group LP to amend the Base Rent terms for the Per International Passenger Payment element and Minimum Annual Guarantee element, covering duty-free merchandise concession at Los Angeles International Airport; and authorized the Chief Executive Officer, or designee, to execute said Seventh Amendment to Concession Agreement LAA-8647 with DFS Group LP subject to 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. 28275 is true and correct, as adopted by the Board of Airport Commissioners at its Special Meeting held on Thursday, November 13, 2025.



Esther N. Alailima Semeatu – Assistant Secretary
BOARD OF AIRPORT COMMISSIONERS