



Request for Committee Action from the Department of Community Planning and Economic Development - CPED

Date: July 9, 2013
To: Council Member Lisa Goodman, Community Development Committee and MCDA Operating Committee
Referral to: MCDA Board of Commissioners

Subject: Approve sale of MCDA fee and ground lease interest in the Saks Property at Gaviidae I

Recommendation: Approve sale of all MCDA interests in the Saks/Gaviidae I property and adopt the attached resolution authorizing execution of the purchase agreement, deeds, and all necessary documents to sell the property in accordance with the terms of the settlement Sales Agreement originally dated January 5, 2004.

Previous Directives:

March 29, 2013 The MCDA Board of Commissioners approved a one year extension of the Saks Ground Lease, Parking Agreement, and Sales Agreement to December 19, 2013. February 10, 2012: The MCDA Board of Commissioners approved a one year extension of the Saks Ground Lease, Parking Agreement, and Sale Agreement to December 19, 2012. September 1, 2010: The MCDA Board of Commissioners approved a one year extension of the Saks Ground Lease, Parking Agreement, and Sale Agreement to December 19, 2011. December 4, 2009: The MCDA Board of Commissioners approved a one year extension of the Saks Ground Lease, Parking Agreement, and Sale Agreement to December 19, 2010. October 10, 2008: The MCDA Board of Commissioners approved a one year extension of the Saks Ground Lease, Parking Agreement, and Sale Agreement to December 19, 2009 with an option for another one-year extension upon the approval of the City Council. November 10, 2003, the MCDA Board of Commissioners approved the settlement with Brookfield (US) LLC (Brookfield) and all appropriate Brookfield affiliates with regard to the matter of Gaviidae 1 (Saks and North Parcels). June 16, 1987: Ground Lease and Development Agreement between the MCDA and MCC Development Company, Inc.

Prepared by:	Beth Grosen, Senior Project Coordinator	(612)-673-5002
Approved by:	Charles T. Lutz, CPED Deputy Director	_____
	Catherine A Polasky, Econ. Dev. Director	_____
Presenters in Committee:	Beth Grosen	

Financial Impact

- Other financial impact. The City will receive the MCDA's pro rata share upon closing of the sale. Proceeds will flow to the Development Account
- Action is within the Business Plan

Community Impact

- Neighborhood Notification NA
- City Goals "Jobs and Economic Vitality"
- Sustainability Targets NA
- Comprehensive Plan The development is consistent with the Minneapolis Plan for Sustainable Growth including 4.16.1 Maintain a destination Retail District along Nicollet Mall. 4.16.2 Provide a continuous retail presence within the Retail

Zoning Code

District by requiring active commercial uses on the street level.

The development is in the Nicollet Mall Overlay District, which requires that retail uses occupy at least 60% of the first floor gross floor area and extend along at least 60% of the first floor façade fronting on Nicollet Mall.

Living Wage/Business Subsidy Agreement
Job Linkage

Yes _____ No _____
Yes _____ No _____

Supporting Information

The City, through the MCDA, is a party to three real estate agreements with Brookfield Market Inc. (“Brookfield”) concerning the property in downtown Minneapolis at the southeast corner of Nicollet Avenue and 6th Street S. known as Gaviidae I. The MCDA owns the land on which the Saks department store and office space above the Saks store is located. The land is subject to a Ground Lease Agreement dated June 16, 1987, as amended, between the MCDA and Brookfield (the “Saks Ground Lease”). The established annual rent for the Saks Ground Lease is \$275,000.

There is also a Parking Agreement dated January 5, 2004 (the “Parking Agreement”) that requires Brookfield to pay the MCDA an annual fee equal to one-half of all gross receipts from the underground parking facility that exceed a predetermined base amount. In the past several years, the annual revenue to the City from the Parking Agreement has ranged from \$10,600 to \$64,000. Brookfield owns and constructed a retail facility on the adjacent property sometimes referred to as the “North Parcel.”

As part of the settlement of two lawsuits, the MCDA and Brookfield entered into an Agreement Regarding Sale of Property dated January 5, 2004 (the “Sale Agreement”) that sets out procedures and time periods for valuing and selling the Saks and North Parcel properties. The Sale Agreement provides that the MCDA will receive its “pro rata share” of the proceeds from the sale of the Saks and North Parcel properties that together are described as “Gaviidae I”. Appraisals have been prepared in anticipation of a sale, which have established the pro rata shares of the City and Brookfield at 34% and 66%, respectively.

Brookfield, in collaboration with City staff, selected Cushman & Wakefield\dba NorthMarq to market the Gaviidae I property. The sale offering resulted in multiple offers for purchase in a highly competitive process. Staff (and Brookfield) recommend the offer from David Werner Real Estate (or a related entity) with a gross purchase price of \$26.5 million. MCDA’s 34% share of the gross amount will be reduced by MCDA’s share of (1) the costs of the sale, and (2) certain leasing expenses incurred by Brookfield and for which it is entitled to reimbursement under the terms of the Sale Agreement. Staff estimates that if the proposed sale closes the net amount payable to MCDA will exceed \$8 million.

At the time of this writing, the recommended offer is based on a brief Letter of Intent from the proposed purchaser. Brookfield, MCDA, and the proposed purchaser are currently working on the terms of a legally binding Purchase Agreement. Closing is anticipated to occur in mid to late September. If for any reason the proposed sale does not close or the purchase price is reduced, staff will seek additional approval from the MCDA Board.

The proposed sale of Saks/Gaviidae I affirms the strong national market interest in high quality downtown Minneapolis properties. The collaborative sale process with Brookfield provides a positive conclusion to a settlement approved almost a decade ago.

RESOLUTION
of the
MINNEAPOLIS COMMUNITY DEVELOPMENT MCDA

Authorizing Sale of Land

WHEREAS, the Minneapolis Community Development Agency ("MCDA") is the owner of certain real property located on Nicollet Mall between Sixth Street and Seventh Street in Minneapolis, Minnesota, described on Exhibit A hereto (the "Saks Parcel"); and

WHEREAS, the Saks Parcel is subject to that certain Ground Lease Agreement between the MCDA, as lessor, and MCC Development Company, Inc., as lessee, dated June 16, 1987 (as amended, the "Ground Lease"). Brookfield Market Inc., a Minnesota corporation ("Brookfield") is the current holder of the tenant's interest under the Ground Lease; and

WHEREAS, Brookfield is the owner of certain real property in Minneapolis, Minnesota, located adjacent to the Saks Parcel and described on Exhibit B hereto (the "North Parcel"); and

WHEREAS, certain buildings and improvements have been constructed on the Saks Parcel and North Parcel that are owned and operated by Brookfield (subject to MCDA's rights under the Ground Lease) as an integrated, vertical retail, office and parking complex commonly known as Phase I of Gaviidae Common (the "Project"); and

WHEREAS, MCDA and Brookfield have had certain disputes with respect to the Project but have resolved those disputes pursuant to a Compromise and Settlement Agreement dated as of November 29, 2004 (the "Settlement Agreement"); and

WHEREAS, under the terms of the Settlement Agreement, MCDA and Brookfield entered into that certain Agreement Regarding Sale of Property dated as of January 5, 2004 (as amended, the "Sale Agreement"), providing for a coordinated sale of the Project at a future date; and

WHEREAS, pursuant to the Sale Agreement, Brookfield and MCDA appraised the Project to determine their pro rata shares and designated a broker to market the Project; and

WHEREAS, David Werner Real Estate Investments (or an affiliated entity, the "Buyer") has offered to purchase the Project for the sum of \$26.5 million; and

WHEREAS, this offer is deemed to be in the best interests of MCDA and the City of Minneapolis;

NOW, THEREFORE, BE IT RESOLVED, that the offer be and the same is hereby accepted, subject to the execution of a contract for the sale of land. Furthermore, that the Executive Director or other appropriate official of the MCDA be and the same are hereby authorized to execute and deliver the contract to the Buyer; provided, however, that this Resolution does not constitute such a contract and no such contract shall be created until executed by the Executive Director or other appropriate official of the MCDA; and

BE IT FURTHER RESOLVED, that the Chairman and Secretary, or any other two Commissioners of the MCDA, be and the same are hereby authorized to execute and deliver a conveyance of the Saks Parcel and any interest in the Project to the Buyer in accordance with the provisions of the executed contract and upon payment to the MCDA for the purchase price thereof; provided, however, that this Resolution does not constitute such a conveyance and no such conveyance shall be created until executed by the Chairman and Secretary, or any other two Commissioners of the MCDA.

EXHIBIT A

LEGAL DESCRIPTION SAKS PARCEL

That part of Lots 1, 2, and 3, Block 221, Brown and Jackins Addition to Minneapolis, and Lots 1, 2, and 3, Block 221, Town of Minneapolis, All lying Southwesterly of a line 140.00 feet Northeasterly of, as measured at right angles to and parallel with, the Southwesterly line of Block 221, Brown and Jackins Addition to Minneapolis, according to the recorded plats thereof, and situate in Hennepin County, Minnesota.

EXHIBIT B

LEGAL DESCRIPTION NORTH PARCEL

Lots 8, 9 and 10, Block 221, Town of Minneapolis; That part of Lots 1, 2 and 3, Block 221, Town of Minneapolis, and That part of Lot 3, Block 221, Brown and Jackins Addition to Minneapolis; All lying Northeasterly of a line 140.00 feet Northeasterly of, as measured at right angles to and parallel with the Southwesterly line of Block 221, Brown and Jackins Addition to Minneapolis, according to the recorded plat thereof, and situate in Hennepin County, Minnesota.