

Minneapolis Community Development Agency

Request for City Council Action

Date: May 20, 2002

To: Council Member Lisa Goodman, Community Development Committee
Council Member Barbara Johnson, Ways and Means/Budget Committee
Refer to: MCDA Board of Commissioners

Prepared by George Kissinger, Phone 612-673-5014.

Approved by Chuck Lutz, MCDA Interim Executive Director _____.

Subject: SETTLEMENT OF CERTAIN BROOKFIELD LOANS

Previous Directives: The MCDA entered into a series of loans to various Brookfield development entities in the late 1980's and early 1990's. There have been on-going discussions and offers toward settlement of these loans over the past several years but without agreement sufficient to bring forward for consideration or approval.

Ward: 7

Neighborhood Group Notification: Not applicable.

Consistency with *Building a City That Works*: Not applicable.

Comprehensive Plan Compliance: Not applicable.

Zoning Code Compliance: Not applicable.

Impact on MCDA Budget: (Check those that apply)

- No financial impact
- Action requires an appropriation increase to the MCDA Budget
- Action provides increased revenue for appropriation increase
- Action requires use of contingency or reserves
- Other financial impact (Explain): The Brookfield Saks and North Parcel loan proceeds are

not part of the current MCDA operating budget but these loan proceeds could have been programmed for future public assisted development initiatives once received.

Living Wage / Business Subsidy: Not applicable.

Job Linkage: Not applicable.

Crown Roller Mill,
105 Fifth Ave. S., Suite 200
Minneapolis, MN 55401-2534
Telephone: (612) 673-5095
TTY: (612) 673-5154
Fax: (612) 673-5100
www.mcda.org

Affirmative Action Compliance: Not applicable.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council reject the Brookfield offer of May 6, 2002 (with the intent and effect of letting the Brookfield ground lease interest in the Saks Parcel expire).

MCDA Board Recommendation: That MCDA staff be directed to make full preparations for assumption of property management responsibilities with regard to the Saks Parcel (Brookfield ground lease expires June 15, 2002) and that the Interim Executive Director be authorized to enter into and execute a reciprocal easement agreement with Brookfield and other agreements as may be necessary providing for efficient operation and management of the property known as the Saks and North Parcels (collectively, Gaviidae I).

Background/Supporting Information

The MCDA initially entered into redevelopment agreements with Brookfield development entities in 1987 calling for the redevelopment of the one-half block along the easterly side of Nicollet Mall between 6th and 7th Streets (Gaviidae I). This entire block had been left vacant after a catastrophic fire destroyed both the Northwestern Bank Building and Donaldsons Department Store over Thanksgiving weekend, 1982. (The other half of this block was redeveloped as the new Norwest Center, now Wells Fargo Center.)

As part of the financing for the Gaviidae I project, the MCDA made two separate "loans" to Brookfield: \$7,000,000 on the Saks Parcel and \$7,500,000 on the North Parcel. Repayment of these loans was structured such that principal and interest was deferred and accrued for the term of the loans. The Brookfield ground lease on the Saks parcel expires on June 15, 2002 with \$11,375,762 due. The North Parcel loan comes fully due on September 30, 2002 in an amount of \$17,473,419.

(The MCDA also loaned \$15 million to Brookfield as part of the financing for Gaviidae II, the Dain/Neiman-Marcus complex one block to the north. That loan is fully secured by Brookfield's parent holding company, Brookfield LTD of Toronto. This loan does not become due until 2008/09 and is not affected by this report's recommendation.)

There have been on-going discussions and offers toward settlement over the past several years regarding these loans but insufficient agreement among the parties to bring forward for consideration and approval. The last formal offer (made by the MCDA) was in October, 2000. There was no response or counter offer by Brookfield to that offer.

Brookfield Offer of May 6, 2002.

Brookfield has now made a settlement offer (May 6, 2002) as follows.

- 1) Saks Parcel- \$4.4 million.
- 2) North Parcel- \$ 0
- 3) Dain/Neiman- MCDA agrees to work with Brookfield to restructure and sell their debt to MCDA.
Half of sale proceeds to be loaned back to Brookfield to lease up City Center or Gaviidae I or Gaviidae II.
New loan 10 years @ 6% payable currently and backed by Credit worthy Brookfield entity acceptable to the MCDA.
Brookfield matches dollar for dollar.
Loan proceeds used @ \$100 per sq. ft. for retail tenants.
- 4) Settlement of all three loans together, as stated above.
- 5) No MCDA residual position on any of this property.

Summary of Brookfield loans.

Saks loan.

Original amount (6/16/87): \$7,000,000
Balance at maturity (6/15/02): \$11,375,762
Collateral: MCDA owns land under Saks and leases to Brookfield. If Brookfield does not pay loan, lease will terminate and land and building will revert to MCDA free of any mortgage but subject to the Saks and M&I Bank leases. Current Hennepin County assessed value is \$8,291,000.

North Parcel loan.

Original amount (9/30/87): \$7,500,000
Balance at maturity (9/30/02): \$17,473,419
Collateral: Second mortgage subordinate to \$30 million first mortgage held by Brookfield entity. Substantial interest has accrued making payoff of this mortgage in excess of \$30 million.
Current Hennepin County assessed value is \$7,091,000.

Dain/Neiman loan.

Original amount (12/19/91):	\$15,000,000
Balance at Maturity (12/19/08)	\$37,644,000
Collateral:	Loan is fully guaranteed by Brookfield Properties Ltd. (parent Canadian corporation with last reported audited net worth of \$1.3 billion Cdn.). Loan is also secured by sub-lease subordinate to \$96,800,000 first mortgage. Current Hennepin county assessed value is \$84,900,000.

Recommendation.

It is felt that the Brookfield offer of settlement is not in the best interest of the MCDA or the City. The up-front cash amount offered is somewhat less than Brookfield's own appraised value for the Saks Parcel if the ownership of the two parcels on that block are combined (which would be the case upon settlement). The MCDA can hold the Saks property at no net cost, actually generating substantial annual income. In the long term, timing of a future sale of the Saks property can ultimately maximize its value when economic and market conditions are right for redevelopment. Further, there is a concern over making a new loan to Brookfield (as they propose) given their position on the current loan in question. The precedent of such a deeply discounted settlement, as Brookfield proposes, is not favorable in the current business climate nor in future dealing with Brookfield when the Dain loan comes due in 2008/09. There is no reason to get involved with Brookfield to market discount the fully secured Dain/Neiman loan. Therefore, the Brookfield offer of May 6, 2002 should be rejected.

Enclosure (map)