

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

Date: October 7, 2008  
 To: Council Member Lisa Goodman, Community Development Committee  
 Referral to: MCDA Board of Commissioners

**Subject: Extension of Saks Ground Lease, Parking Agreement, and Sale Agreement**

**Recommendation:** Authorize appropriate MCDA officials to execute a one year extension of the Saks Ground Lease, Parking Agreement, and Sale Agreement to December 19, 2009, with an option for an additional one-year extension upon approval of the CPED Director and the City Finance Officer.

**Previous Directives:**

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 requested extensions will defer anticipated Saks payment by 12-24 months  
 Action is within the Business Plan

**Community Impact**

Neighborhood Notification	NA
City Goals	"A premier destination"
Sustainability Targets	NA
Comprehensive Plan	This development was consistent with the Downtown 2010 Plan. The new Minneapolis Plan for Sustainable Growth includes 4.16.1 Maintain a destination Retail District along Nicollet Mall. 4.16.2 is provide a continuous retail presence within the Retail District by requiring active commercial uses on the street level.
Zoning Code	Consistent
Living Wage/Business Subsidy Agreement	Yes _____ No <input checked="" type="checkbox"/>
Job Linkage	Yes _____ No <input checked="" type="checkbox"/>

**Supporting Information**

The City, through the MCDA, is a party to real estate agreements with Brookfield for two properties in downtown Minneapolis near Nicollet Avenue and 6<sup>th</sup> Street S.-Gaviidae I and II. The City has a significant financial interest in the Gaviidae II property which will be repaid in 2009 to the Legacy Fund. The City's interest in Gaviidae I property is much smaller and is the subject of this Council matter.

The MCDA owns the land at the southeast corner of Nicollet at 6<sup>th</sup> Street S. 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 Market Inc. (the "Saks Ground Lease") that expires on December 19, 2008.

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 \$47,000 to \$64,000. The Parking Agreement also expires on December 19, 2008 unless the Saks Ground Lease is extended.

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 marketing the Saks and North Parcel properties. The Sale Agreement assumes a December 19, 2008 deadline and spells out an earlier date to choose appraisers and begin marketing of the property. 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". We believe that the market value of Gaviidae I may currently be approximately \$15,000,000 with the MCDA "share" in the range of 20-30% of that amount. Knowledgeable financial and development professionals agree that given the current unsettled economic and credit conditions, flexibility to achieve a sale of the property over a longer period of time may yield a higher sale price. Brookfield has therefore requested that the existing leases and agreements be extended. As it is uncertain how long the current economic climate will persist, staff recommends a one year extension with the option of an additional one year extension if requested by Brookfield, upon the approval of the CPED Director and the City Finance Officer.

The extension would allow time to identify a qualified buyer and close the sale. Brookfield would continue to pay annual rent of \$275,000 and the parking fee during the extension period. Without an extension, the MCDA would take possession of the Saks property upon expiration of the Saks Ground Lease and then negotiate complicated reciprocal easements and operating covenants with Brookfield to facilitate integrated functioning of the Saks and North Parcel properties.

If the extension is granted, the MCDA's share of the sale proceeds would be budgeted for receipt in 2010, rather than 2008 or 2009 as was earlier expected. These proceeds have not been incorporated in the financial projections of the Legacy Fund or commitments to the Neighborhood Revitalization Program, but will flow to the Development Fund.

Note that Brookfield already has an option to extend the sublease on the Gaviidae II Dain Plaza property. Brookfield has been marketing the property, but has not found a buyer. To exercise the Dain option, Brookfield must give notice and pay a \$265,000 extension fee by September 19, 2008.