

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

Date: November 17, 2009
 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, 2010

Previous Directives:

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 requested extensions will defer anticipated Saks payment by 12 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 6th Street S.-Gaviidae I and II. The City has a significant financial interest in the Gaviidae II property which will be repaid in December of this year. The City's interest in Gaviidae I property is much smaller and is the subject of this Council matter. A one-year extension to three Gaviidae I agreements was approved last year that anticipated provision for another one-year extension due to economic conditions.

The MCDA owns the land at the southeast corner of Nicollet at 6th 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, 2009.

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, 2009 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 as amended assumes a December 19, 2009 deadline and spells out an earlier date to choose appraisers and begin marketing of the property. The City and Brookfield have chosen appraisers and should have their reports completed by year end; the appraisals will be used to calculate the "pro rata share" of the total value attributable to the Saks Parcel. 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 one more year. Marketing of the Gaviidae I property will begin in 2010.

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 2011, rather than 2010 as was earlier expected. When received, these proceeds will flow to the Development Account.