American Dream Deferred: Goldman Delays Pricing of Mall Bonds

- **Offering statement for mall project has 36 pages of risks**
- **Pricing of sale, initially set for Wednesday, is postponed**

Goldman Sachs Group Inc. delayed its sale of the American Dream.

The investment bank pushed off the planned pricing of $1.1 billion of unrated municipal bonds to finance the long-stalled shopping and entertainment center in New Jersey's Meadowlands, about 10 miles (16 kilometers) west of Manhattan, according to three people familiar with the matter.

The deal for the project, named for the national belief that anyone can succeed, was supposed to price today. Speculative debt offerings sometimes take longer than initially planned because bankers need to drum up buyers and address the questions of would-be investors. Goldman Sachs spokesman Michael DuVally declined to comment. It may still come as soon as Thursday, according to Bloomberg data.

The Las Vegas-inspired mega complex will pair an indoor amusement park and water park, skating rink, ski slope, Ferris wheel, aquarium, and performing-arts theater with 500 stores, anchored by Saks Fifth Avenue and Lord & Taylor.

"This thing is going to be all things to all people," said Robert Amodeo, head of municipals in New York for Western Asset Management. "I can't recall another credit that looks like this."

The debt offering — the largest of unrated municipal bonds this year — comes amid a steady drumbeat of headlines about the death of the American shopping mall. Credit Suisse Group AG predicts that one-quarter of them will close over the next five years as Internet shopping grows and wages stagnate. In addition, flows into high-yield municipal funds have been a modest $4.4 billion since the start of the year, according to Lipper US Fund Flows data, suggesting that the securities are being issued at a time when investors are becoming more risk averse.

The bonds will be sold through a Wisconsin agency, the Public Finance Authority, that specializes in acting as a conduit for risky debt. Borrowers for speculative projects sometimes forgo credit ratings rather than risk the taint of being labeled junk.

The 2.9 million square-foot complex is targeted to open in 2019, 15 years after prior developers broke ground. More than 20 million people live within 50 miles of the Meadowlands and the developers Triple Five Group are also "salivating" over the 62 million tourists who come to New York City, said Don Ghermezian, whose family controls the Triple Five Group. The billionaire family owns the Mall of America and the West Edmonton Mall.

"When we took the project over the last thing we wanted was to build another shopping center," said Ghermezian at an investor presentation. "New Jersey doesn't need another shopping center."

Triple Five Group is issuing $800 million of bonds backed by payments in lieu of property taxes and $300 million that are secured by New Jersey grants it will receive if the project meets sales-tax revenue targets.

Investors purchasing the American Dream bonds will need to weather the potential pitfalls: The 1,136-page offering statement includes 36 pages of risks, ranging from whether the project will be completed on time to the “difficulty, expense, unfamiliarity and time-consuming nature” of getting to the center.

American Dream is across the highway from MetLife Stadium, the home of the National Football League’s New York Giants and New York Jets. Events at the stadium could adversely affect attendance.

Lisa Washburn, a managing director at Municipal Market Analytics, was skeptical that tourists coming to New York, with all of its culture, entertainment and shopping, would get on a train or bus to the Meadowlands, “a difficult to-get to destination in a relatively unattractive part of New Jersey.”

“Parking and transportation is really substandard in this area,” said Washburn.

If American Dream doesn’t make the full payment in lieu of taxes, bondholders can take over the property, according to Western Asset. Bondholders can also come out ahead if it’s a success: the securities also have a “turbo” feature, which means that they will be paid off faster if revenue comes in better than projected.

“The good part is you get prepaid so there’s less risk in your portfolio, this being a non-rated security and there’s some hair on it,” said Amodeo, the investor with Western Asset. “‘But if they’re cash-flowing more than their debt service requirement that’s an improving credit situation and you’d like that to stay outstanding for longer. It’s a Catch-22.”

The projected payments in lieu of taxes of $16.43 per square foot is comparable to the Mall of America’s taxes at $15.83, according to the official statement.

The total cost of the project is estimated at $2.8 billion, which will be covered by the tax-exempt bonds, $500 million from the developer, payments from tenants and nearly $1.7 billion in loans from JPMorgan Chase & Co.

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