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New Jersey Mega Mall Yields Big Win to Bondholders Chasing Risk.

- **Las Vegas-inspired amusement mall is about 60 percent complete**
- **High-yield muni bonds are outperforming investment grade**

A year ago, about $1.1 billion of tax-exempt bonds were sold to finish the American Dream complex in New Jersey's Meadowlands, a project that's a bet the so-called death of the shopping mall can be countered with attractions like an ice skating rink, roller coasters and a six-acre indoor waterpark.

Most of the work won't be done until next March. But the development is already delivering big profits to investors.

As bond buyers pour money into riskier debt in pursuit of higher yields, some unrated securities sold for the Triple Five Group project have returned 18 percent over the past year, a gain rarely seen in the municipal market. It joins other speculative securities, including those issued by Chicago's school system, that rallied as defaults remain scarce and the economy continues its second-longest expansion in history.

"Nothing negative has happened so far, it's just benefited from market dynamics," said Daniel Solender, head of municipal investments at Lord Abbett & Co., which owns some of the bonds.

In the 12 months to June 21, municipal high-yield debt returned 6.6 percent, compared to 0.92 percent for investment grade state and local government bonds, according to Bloomberg Barclays Indexes. Investors have added $5.7 billion to high-yield municipal bond funds over the past year, more than half of all the money that's flowed into to state and local government debt funds, according to Lipper US Fund Flows data.

The American Dream sale, the largest offering of unrated municipal bonds last year, will help complete a project that has been in the works for nearly two decades. It was conceived in 2002, and initial work began in 2004 across the highway from what is now MetLife Stadium. Construction was abandoned after previous developers ran short of funding.

Triple Five, which took it over, sold $800 million in municipal bonds backed by payments in lieu of property taxes and about $270 million in sales-tax backed debt. If Edmonton, Alberta-based Triple Five doesn't pay property taxes, the trustee can foreclose on the property. The holders don't have any recourse if the project doesn't generate enough sales-tax money to cover the bonds backed by that revenue.

Investors don't seem worried. Bonds maturing in 2050 were issued at about 102.8 cents on the dollar and are now trading at 115 cents, pushing the yield down to about 5.05 percent from 6.63 percent. Much of the gain on the American Dream bonds came in the first few months after the debt was issued, according to Robert Amodeo, head of municipals at Western Asset Management.

"When it came to market it was such a speculative deal," Solender said. "To sell a whole deal at that

size it took an attractive yield to get everyone interested.”

Construction of the $2.8 billion Las Vegas-inspired mega complex, which will also include an indoor ski slope, Ferris wheel, aquarium, performing-arts theater and 500 stores is about 60 percent complete.

At the site, construction workers are laying steel for an indoor water park and pouring concrete at the ice skating rink. The Saks Fifth Avenue tenant space is ready to turn over to the department store and roller coaster sections are being put in place, according to project status reports.

More than three-quarters of American Dream’s 2.3 million square feet was leased as of November 2017, according to a May 30 project status report. All of the retail anchor space and stores of more than 50,000 square feet are leased.

Triple Five is building an even bigger mall in Miami, also called American Dream. The 6.2-millio--square-foot retail and entertainment complex will cost an estimated $4 billion and will be built without public subsides, unlike the New Jersey project. Triple Five also owns the Mall of America in Bloomington, Minnesota.

Bloomberg Business

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June 22, 2018, 7:05 AM PDT

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