

Good News for Builders: “Ugly” Mega Project Gets New Look and New Lease on Life

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It won't be known as Xanadu anymore, but like the cat with nine lives, the mega-retail and entertainment project rising out of the Meadowlands near the junction of Route 3 and the New Jersey Turnpike simply refuses to die.

Called the “ugliest damn building in New Jersey and maybe America,” by Governor Chris Christie, the controversial project received another lease on life in late April when a Canadian developer Triple Five Group struck a deal with the NJ Sports & Exposition Authority to take over development of the long-dormant mall.

Renamed the “American Dream@Meadowlands,” the anticipated resumption of the massive mall project has revived hopes it will finally fulfill its promise as a major economic and jobs creation engine for the region and entire state. It also represents another step in the Christie Administration's program to revitalize New Jersey's economy and business climate through a mix of legislative, tax incentive, regulatory reform and public-private partnership initiatives.

Mall Makeover

As envisioned by the Triple Five Group, American Dream@Meadowlands will be the largest retail and entertainment complex in the United States and one of the largest, if not the largest, in the world. The existing structure will also receive a dramatic makeover. The garish orange, yellow, blue and teal exterior panels that currently offend the eyes of passing motorists will be transformed into a stylish, illuminated façade, covered by vast swaths of shimmering glass and other attractive materials.

To be marketed as a world-class destination for entertainment, amusement parks, dining, recreation, tourism and shopping, the once and future mall complex could attract up to 55 million visitors annually.

American Dream is expected to create 9,000 construction jobs over two years, and approximately 35,000 permanent jobs once the doors open. It's also estimated that the complex,

upon completion, will generate tens of millions of dollars in sales and payroll taxes for New Jersey and create up to \$3.8 billion in annual revenues for Bergen County municipalities.

“I promised the people of Bergen County and the state of New Jersey that action would be taken to revitalize the complex at the Meadowlands, and I am delivering on the promise,” Christie stated at a news conference announcing the agreement. “This administration ... will be a true partner at every step in transforming the Meadowlands from a financial and economic drain into a vibrant destination so that New Jerseyans can begin to reap the benefits of the job creation and much-needed tax revenues this project will provide.”

Tax Incentives Lost and Found

The project was first approved in late 2003 as a joint venture between the former Mills Corp. and Mack-Cali Realty Corp. Ground was broken on the project in September 2004 and it was expected to open two years later. The state provided the land, spent more than \$80 million to build highway connections and ramps to reach the complex, constructed a train station, and waived years' worth of tax collections.

Despite this and other state assistance, by 2006 the project was beset by cost overruns and Mills was encountering financial problems. Colony Capital, a private equity firm, took control of the project, but it too suffered delays. Then, in 2009, a subsidiary of the bankrupted Lehman Brothers cut off promised financing, causing other lenders to withdraw from the project. Work came to a screeching halt with construction only 80% completed and anchor stores expressing misgivings about the future of the complex.

Finally, in August 2010, Colony Capital lenders foreclosed, ending the firm's control of the development. Triple Five's agreement with the Sports & Exposition Authority gives the developer until the end of the year to arrange all financing for the project. Under terms of the agreement, Triple Five would invest \$1.7 billion in new attractions and projects. The state, in turn, would provide at least \$200 million in low-interest

financing and tax breaks and forfeit a similar amount in future sales tax revenue.

According to officials, tax incentives would fall under the Business Employment Incentive Program, the Business Retention and Relocation Assistance Grant Program, the Economic Redevelopment and Growth Grant Program, and the Urban Transit Hub Tax Credit. Sales tax revenue would be used to repay the state-generated loans.

Positive Prediction

Despite its criticism of the complex's aesthetics, the Christie Administration argues that the project is too large and too far advanced to allow it to founder. Some \$1.9 billion has already been spent on the project, and four-fifths of construction of the original plan has been completed. As one local real estate/lending executive notes, it just makes sense to take advantage of the jobs, economic renewal and projected tax revenues that American Dream@Meadowlands promises.

The need to continue and complete development of the mall was also implicit in the final report of Governor Christie's Advisory Committee on Gaming, Sports and Entertainment. "Benefits associated with locating a world-class entertainment and retail complex in the Meadowlands are extensive and varied, but not totally predictable," the so-called Hanson Commission Report states. The most predictable benefits include:

- * A significant cash flow to the NJ Sports & Exposition Authority
- * Significant payments in lieu of taxes to the Borough of East Rutherford through the NJSEA
- * Creation of more than 9,700 full time equivalent jobs (including 4,400 direct jobs and 5,300 indirect jobs) during the development period
- * Upon completion, direct wages in excess of \$120 million a year paid to 4,000-plus full-time jobs
- * Annual taxes in excess of \$65 million attributable to direct and indirect expenditures during the development period
- * Taxes in excess of \$48 million, generated by landlord and tenant operating expenses

"Given its location and redesign, with the proper sponsorship," The Hanson Report continues, "the Commission believes the Meadowlands entertainment and retail complex can succeed, if completed. Given the potential benefits to the state associated with completing the project, the commission concludes that the state should cooperate in attempts to bring the project to completion."

Michael Capelli, executive secretary-treasurer of the Northeast Regional Council of Carpenters, agrees with the commission's assessment. "The American Dream project would provide a significant boost for New Jersey's economy, but most important, it would put our members back to work immediately," said Capelli, whose membership, like most of the building trades, is suffering 30 to 40 percent unemployment rates. "Our organization is willing to commit substantial resources to assist the developer, Triple Five, and the state. From our perspective, this project is too important to fail."

Similar Situations

In some ways, renewal of the Meadowlands mall project mirrors the state's efforts to revitalize Atlantic City's economy through bipartisan legislative initiatives and by providing the financial assistance needed to resume construction of the Revel Entertainment Casino.

The huge \$2.5 billion, 1,900-room complex was launched in 2007, before the recession hit and credit markets disintegrated. Beset by mounting problems, the Revel project ran out of money in January 2009 and work was halted on the half-finished structure. In April 2010, Morgan Stanley, the principal investor, pulled out of the project, accepting a substantial \$1.2 billion loss and halting thousands of construction jobs.

Following publication of the Hanson Commission Report in July 2010 that called for a multi-faceted campaign to jumpstart the Atlantic City economy, the Christie Administration and a bipartisan contingent of legislators developed a comprehensive package of bills and programs aimed at restoring the resort city's luster.

As part of the renewal effort, the NJ Economic Development Authority (EDA) moved to help reactivate work on the stalled Revel project by agreeing to reimburse \$261.4 million in business, sales and hotel taxes to Revel owners over 20 years, beginning two years after the casino opens its doors and starts to generate state taxes. This commitment helped the casino secure the additional \$1.2 billion in private funding needed to resume and complete the total \$2.5 billion project.

Endless Attractions

The first phase of the Meadowlands Project includes 2.9 million sq.ft. of retail space, amusement attractions and restaurants. It is projected to open in late 2013, just in time for the February 2014 Super Bowl, which will be played next door at the new Meadowlands Stadium, home of the football Giants and Jets.

Triple Five plans to expand the mall's entertainment component by adding a glass-domed amusement park and climate-controlled indoor water park and aquarium, and a skating rink on land purchased across the road from the existing attractions. This new phase will extend the total complex to nearly 3 million sq.ft. and is scheduled to open in spring of 2014.

Among other attractions are:

- * a 250,000 sq.ft. indoor SkiDome with equipment rentals, a chairlift, ski lessons and a ski bar – the first of its kind in the US
- * a Skydiving Simulator and Vertical Wind Tunnel
- * a Performing Arts Center with a capacity of 3,000
- * a 26-screen movie theatre with 5,000 seats and a rooftop lounge overlooking New York City
- * a Legoland Discovery Center
- * a 286 ft. tall Ferris wheel with glass-enclosed capsules and views of New York
- * an upscale bowling alley
- * a 20,000 sq.ft. family entertainment center
- * an interactive museum with over 100 exhibits
- * the largest specialty sweets shop in the world
- * an indoor, role-playing amusement center
- * a gourmet food market
- * 3 millionsq.ft.of retailspace, including eight anchor stores, and
- * 150,000 sq.ft. of restaurant space with indoor and outdoor seating.

By the time some 4.5 million sq.ft. of planned hotels, a convention center and other projects are added to the mix, the Triple Five Group says it could be the largest retail, entertainment, amusement, recreation and tourism project in the world. According to Triple Five Chairman Nader Ghermezian, "This project, by measurement, bar none, does not exist anywhere. This project is not only a retail project, it's a tourism project in a major way."

The Ghermezian brothers, owners of the Triple Five Group with a reputed worth of \$4 billion, have had considerable success with other mall-type properties, primarily the 5.3 millionsq.ft. West Edmonton Mall in Edmonton, Alberta, and the 4.2 million sq.ft. Mall of America near Minneapolis, the two largest such complexes in North America.

Since the Ghermezian's assumed sole ownership of the Mall of America in 2006, it has drawn tens of millions of shoppers and tourists even in the worst economic climate in decades. Reported sales in 2010 of \$640 per sq.ft. were well above the

industry average of \$385. Meanwhile, Triple Five's flagship Edmonton Mall is also thriving with a vacancy rate of only 1%. Both malls are described as "wildly successful" by James Sullivan, a senior retail real estate analyst in Newport Beach, CA.

Blue Laws, Competition and Controversy

Still, some would say the company faces particular challenges in Bergen County, where local laws prohibit retail sales on Sundays, and in the New York area, which is already entertainment-rich with tourist attractions, malls, stadiums, arenas and amusement parks. Also, traffic congestion, even in the best of times, can be a nightmare, and it's that much worse on football Sundays and Mondays.

"You've got to make this special," said Joseph French, national director of retail with Sperry Van Ness, a commercial real estate brokerage firm. "New Jersey doesn't lack for retail, and there are plenty of malls that are easier to get to."

Another potential glitch arose in mid-June when it was revealed the state did not have the legal authority to issue hundreds of millions of dollars in financial incentives through the Economic Redevelopment and Growth Grant Program (ERGG). That program only applies to so-called "smart growth" areas and not to developable land in the Meadowlands, including parcels owned by the Sports & Exposition Authority.

Not only is Triple Five depending upon the tax breaks provided by the ERGG to complete the project, but the lending group that took over management of the project from Colony Capital last summer said it won't officially turn it over to the Canadian developer until financing is firmly in place.

To expedite the process, State Senator Raymond Lesniak, chairman of the Senate Economic Growth Committee, sponsored legislation (S-2957) to amend the NJ Economic Stimulus Act of 2009 to make Meadowlands projects eligible for ERGG tax incentives. The full Legislature approved the Lesniak bill on June 29, 2011, and handed it off to Governor Christie who signed it into law. This allows Triple Five to apply to the Economic Development Authority for the tax break, which actually could be as high as \$350 million, based on the \$1.7 billion of new construction needed to complete the project.

Also, after analyzing the work already completed on the project, Triple Five revealed it will have to spend tens of

millions of dollars to replace corroded machinery in elevators and escalators that have sat dormant for several years, and to shore-up the sinking ground floor of an adjacent parking garage. The company plans to revamp the controversial façade and major sections of the interior to create a more “relaxing” environment.

On the Plus Side...

Despite the challenges, however, the American Dream@Meadowlands has several factors working to its advantage. It's located in Bergen County, one of the wealthiest and most densely populated regions in the nation. As of 2009, there were approximately 3,778 people per square mile, with a median household income of \$82,136 a year, almost \$30,000 above the median income figure for the U.S. It also sits adjacent to the new Meadowlands Stadium.

Then again, an estimated 100 million vehicles currently pass by the site on an annual basis, even before the opening of the mall. Based on this and other demographics, Triple Five projects the complex will attract approximately 55 million visitors a year, providing it with good potential for success.

“This project has been of interest to Triple Five for several years because of the great potential it represents,” Mall of America spokesman Dan Jasper was quoted in a Star-Ledger article. “The large surrounding population, vibrant sports entertainment district, and drawing appeal for world-wide tourists were all very positive traits.”

Robert Martie, a Parsippany-based executive vice president with Colliers International, a commercial real estate services firm, concurs with these positive appraisals of the project. “In the past there was skepticism over whether the developers could even deliver the project,” he observed in an article for Retail Traffic magazine. “With Triple Five, I think the credibility issues of the project have disappeared. It enhances everybody's image of the project.”

Thomas Misciagna, president of the Bergen County Chapter of the NJ Building & Construction Trades Council, agreed that the Triple Five Group's reputation precedes it, and to date that reputation is predominately positive. “Before sitting down with Triple Five representatives, we contacted the president of the Minnesota building trades who had extensive dealings with them during construction of the Mall of America in Minneapolis,” Misciagna recalled. “He said they were very forthright in all their dealings with labor, and that the unions enjoyed working with the Ghermezian family. In fact, the trades were so impressed, they invested \$20 million in a hotel the family was building.”

Misciagna said his council has been dealing with Ghermezian family members and other upper management representatives of Triple Five, but as yet they have only briefly discussed working conditions and the possibility of continuing with the type of project labor agreement the trades had with the previous developers of the now-defunct Xanadu project.

“Our talks are still in the preliminary stages, but so far they seem amenable to the idea of a PLA,” he continued, “and we'd also like to arrange for two daily work shifts to ensure that the project is completed on schedule.”

Misciagna allowed that raising funds is much more difficult today than it was a few years ago, given the country's devastating financial collapse and ensuing recession. Where Triple Five may only have one avenue for raising money today, previous developers had up to 13 outlets only five years ago, he noted.

“Still, I think the current project plans have a good chance for success,” the Bergen Building Council head concluded. “The developers have also expressed a willingness to consider eventually investing in some light rail service between Newark Airport and the American Dream complex. This could dramatically improve the convenience of traveling to and from the mall and enhance its appeal as a destination of choice.”

Jim Kirkos, chairman of the Meadowlands Regional Chamber of Commerce, also appears to be on board in support of the project. “There is no question that once this thing gets off the ground and finally opens its doors, it will be one of the biggest attractions in Northern New Jersey and will be a major economic driver in the Meadowlands region,” Kirkos noted in a press report.

Possible Growth in the Meadowlands

The Meadowlands Regional Chamber of Commerce itself has a vision for restoring some of the vanished luster of the Sports Complex, which lost much of its appeal as a tourist attraction in recent years with hundreds of acres of useable land remaining undeveloped and the racetrack operating in the red.

The chamber unveiled a proposal in February to develop 2.5 million sq.ft. of land at the 600-acre Sports Complex. The proposal calls for private development of several sports and gaming facilities that could attract both tourists and business travelers. Among the specific components would be a convention and athletic center, an aquatics facility, hotels, a

new race track and casinos.

The chamber estimates that such a plan could create as many as 15,000 temporary construction jobs and 25,000 permanent positions in the region and could act as an economic boon for the entire Meadowlands District, which includes Secaucus and parts of North Bergen, as well as several other municipalities in Hudson and Bergen counties.

“The Meadowlands Sports Complex has the capability of being this fabulous, multi-use, multi-faceted entertainment complex, and we want to advocate for continued expansion of the complex,” Kirkos stated.

However, any proposed construction of new casinos and gaming venues could be at odds with the Christie Administration’s plans for revitalizing economic growth in Atlantic City and across South Jersey. Also, the resort city and South Jersey political leaders have already expressed opposition to expanding gaming outlets to other areas of the state.

“What we laid out isn’t specifically about gaming,” Kirkos contends. “The heart and soul of what we laid out was really more about continuing what the state and the governor’s office has already been doing.” The Christie Administration has not offered a reaction to the proposal.

However, the Administration has expressed enthusiasm over Triple Five’s plans for resuming the Meadowlands mall project. “This is great news for the Meadowlands and for New Jersey. By working with a world-class developer in Triple Five, we are taking another positive step to get this project moving, creating tens of thousands of jobs, and continuing the growth of the Meadowlands as an economic engine for both the regional and state economies,” Christie affirmed. “This is going to be what it was envisioned to be: an extraordinary destination. It’s getting a makeover, a new name, a new image ... and we’ll make sure the sales tax revenues come back to make this a successful project, and we’ll get our investment back with responsible partners we can trust. This partnership is a critical sign that New Jersey is making a comeback.”