

Development

Experts agree Herald land deal a long shot

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By: Eric Kalis

A developer and a media giant are caught in a waiting game. Who'll be declared a winner — if there is to be one — will depend on how quickly the real estate market rebounds.

Citisquare Group, led by Miami attorney and developer Pedro Martin, has struggled to close on the \$190 million purchase of 10 acres next to the Miami Herald building. It has at least \$16 million on the line.

Citisquare has been unable to secure financing for the purchase and development of a big-box shopping center. And now, the value of the land is widely believed to be significantly less than the contract price, which was set in March 2005 during the real estate boom.

Meanwhile, Herald owner McClatchy, which has already received a non-refundable \$10 million deposit on the land sale, is in an advantageous position whether the buyer closes or not, real estate experts say.

Some industry insiders doubt the deal will ever be completed. Others see both sides benefiting from the ongoing delays.

"When you look at what [Citisquare] is not putting up [\$190 million] in exchange for additional time, it is cheaper for them to extend for a year," said Barry Somerstein, a shareholder in the Fort Lauderdale office of Ruden McClosky. Somerstein is not involved in the deal.

Delaying the closing would indicate that Citisquare "believes the economy may turn and big-box users may want to go ahead [and lease space] and the lending market opens up," Somerstein said. "It is a beautiful piece of property."

Buying an extra year of time could also help Citisquare negotiate a lower price for the property, Somerstein said.

"A lot of times you can negotiate pretty hard in this market because [the seller] has no alternative," he said. "At the end of the year, will [McClatchy] work with them" on a cheaper price for the land?"

Based on South Florida's commercial real estate market, Citisquare is likely to continue to have trouble finding financing. Miami-Dade County was ranked third in Real Capital Analytics' national study of most troubled markets in terms of distressed commercial real estate properties. South Florida has about \$12.4 billion in troubled commercial real estate, with Miami-Dade accounting for about \$8 billion, according to Real Capital.

Citisquare has until next week to close the deal or put up more money to extend the deal for another year.

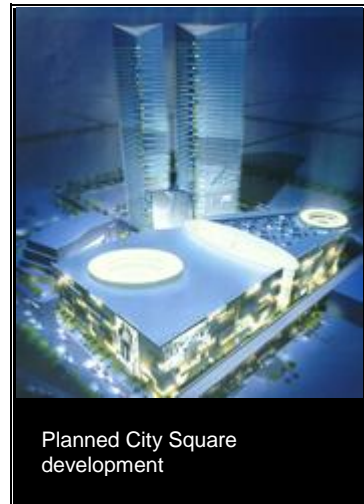
McClatchy and Citisquare agreed in late December to extend the deadline to Jan. 19 to close the deal for the land next to the newspaper's bayfront building in Miami. The agreement also increased the termination fee from \$6 million to \$7 million, according to McClatchy.

Citisquare can extend the agreement to Jan. 31, 2011, if it pays \$6 million on top of the \$10 million deposit it has already paid.

Martin did not return phone calls seeking comment.

McClatchy would have preferred to close the land deal last month, company vice president Pat Talamantes said in a written statement. But the opportunity to collect at least another \$1 million — if the transaction does not close — made the extension palatable.

A spokesman for McClatchy said nothing has changed since the company announced the latest extension Dec. 31.





Citisquare contracted to buy the site in March 2005. It planned to flip the property to developer Mark Siffin, who wanted to build a five-story retail center known as City Square.

Early plans called for the project to include thousands of condo units. But Martin has not disclosed if the project still includes the residential units in addition to the retail center.

Siffin did not return calls for comment.

The land sale has been delayed numerous times since 2005, with Citisquare losing its right of first refusal to purchase the entire Miami Herald building, part of the original agreement, after an extension in December 2008.

Citisquare has three options to consider before Jan. 19:

- * Close on the \$190 acquisition.
- * Eat the \$10 million deposit and \$7 million termination fee and walk away from the deal.
- * Pay \$6 million to extend the closing deadline to January 2011.

Completing either of the deals — McClatchy's sale of the land to Citisquare and Citisquare's sale to Siffin — would be impressive considering the \$190 million contract price and lack of demand for new development in the area, said Jay Caplin, managing principal of Steelbridge Capital in Miami.

"That is an extraordinarily high price in a difficult time to start new development, whether it's retail or residential" Caplin said. "It's just a very high price in this environment to be speculating."

The Herald land was worth about \$53 million in 2009, according to the Miami-Dade County Property Appraiser's Office.

The initial contract price reflects an assumption by Citisquare that enough residents will move into new condominiums near the Herald building to make the retail project a success, said Darryl Robinson, founding principal of Oak Hill Advisors in Coral Gables.

About 16,100 residents will move into downtown Miami and surrounding neighborhoods by 2014, according to Goodkin Consulting.

But when Citisquare first went under contract to buy the site, group executives likely thought enough new residents would already live in the area to support a massive retail project, Robinson said.

"It doesn't mean the [residents] won't be there down the road," he said. "But I don't think the actual end users can support retail in that geographic area."

A development in Miami on the scale of City Square probably won't be viable for several years, said Tere Blanca, principal of Miami's Blanca Commercial Real Estate.

In the current financing environment, a developer would need to have substantial pre-leasing commitments to obtain fund for such an ambitious project, Blanca said.

"The reality of the marketplace dictates development is going to be stalled for a long time," she said. "I can't imagine any major development occurring in the next few years without major fundamentals shifting."

Citisquare should avoid closing on the purchase this year but not necessarily abandon the deal altogether, Caplin said.

"Far be it from me to advise anyone to walk away from \$17 million," including the termination fee and initial deposit, he said. "There could be more to the picture than we are aware of," Caplin said. "I wouldn't put more money into the project."