

Shops at Sunset Place in search of a new lender

By Brian Bandell and Oscar Pedro Musibay
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Shops at Sunset Place in South Miami appears to have everything going for it: It's 90 percent leased, it easily covers the debt service on its \$76.6 million mortgage and its last appraisal valued it significantly above its loan.

However, owner Simon Property Group has been trying to refinance the 520,000-square-foot open-air mall for more than a year. After a one-year maturity extension came up in early May, a commercial mortgage-backed securities (CMBS) fund granted a second extension to Nov. 9.



Mark Freerks
Shops at Sunset Place is about 90 percent leased, which helps cover its debt service.

A Simon spokesman declined to comment, but whether the mall giant can refinance the property will test the credit market's recovery and lenders' confidence in South Florida retail. If a property like Shops at Sunset Place with solid financial performance has difficulty finding a lender, what will happen to shopping centers that are borderline or struggling?

The few lenders that can make major retail loans are extremely cautious because of recent losses in Florida, regulatory scrutiny and the ailing securitization market, which means banks can no longer unload loans on Wall Street, said Scott Frank, a partner in the real estate practice of Arnstein & Lehr in Boca Raton.

"I don't see a lot going on out there where banks are putting out \$70 million at 60 or 70 percent loan-to-value," he said.

In 2009, Simon walked away from its mortgage on the Palm Beach Mall in West Palm Beach, allowing a CMBS fund to take it over. However, that mall was struggling with vacancies and needed remodeling.

According to data from New York-based Trepp LLC, Simon has asked the CMBS fund for more time to find a lender willing to refinance Shops at Sunset, but it has yet to get a loan commitment.

"However, the real estate lending market is beginning to open up and lenders are willing to provide financing to strong sponsors on well-located, high-quality assets," Trepp said.

Trepp said Shops at Sunset Place is 90 percent leased, with AMC Theaters, LA Fitness, GameWorks, Barnes & Noble and Niketown as major tenants. The property generated revenue

of \$22.4 million in 2009, up from \$21.9 million the previous year. Trepp data shows that its net operating income more than tripled its debt service payments, making it a strong performer.

As long as its tenants stay solvent, that performance should continue. Nearly 60 percent of its space is leased up for at least four years, with AMC and LA Fitness in there for an additional eight and 10 years, respectively.

Commercial experts agree that Simon shouldn't have trouble finding financing by November.

Generating great revenue

Jeremy Larkin, president of NAI Miami Commercial Real Estate Services Worldwide, said the property is generating great revenue, which makes refinancing a no-brainer.

Gavin Campbell, a managing partner with Miami-based commercial investor and manager Steelbridge Capital, said an insurance company is the likeliest to provide financing, seeing the property as a good risk.

Given Trepp's report, Campbell said Simon wouldn't have to put in more equity because an appraisal puts the loan to value at a "comfortable" 55 percent. Shops at Sunset Place was last appraised in May 2009 at \$132 million, down from \$146 million at its loan origination in 2004.

The property is generating enough cash to cover the debt three times over, which is almost unheard of, Campbell said.

"Life insurance companies would love to lend against this asset, probably in the 5 to 6 percent interest rate range," he said.

The interest rate is probably a major sticking point in loan negotiations, Frank said. Most of the current loan is adjustable, so the rate is extremely favorable at 0.78 percent.

Banks don't want to commit long term to a low rate, so they're probably asking for an adjustable rate with a lot of points added onto the base index, so the lender reaps higher payments when interest rates rise, Frank said.

For Simon, the interest rates would make a big difference in the profit margin on the property.

For smaller South Florida shopping centers with higher vacancy rates and worse loan-to-value ratios, it's not a matter of profit margin, it's a matter of survival, Frank said. When their loans start coming due, he said many of the owners would have to turn over the properties.

Jason Press, a senior retail associate at CREC, said Simon has done a great job of positioning the property to attract young people, with tenants including clothing store Forever 21. He said Simon would do well to continue on the same track by courting H&M, Zara or another clothing retailer.

Said Press: "They have been fixing the mix for a while, and they finally figured out what works."

THE DETAILS

Major South Florida retail centers in turmoil

Palm Beach Mall, West Palm Beach

Square feet: 1.2 million

Status: Mostly closed, owned by CMBS fund

Fashion Mall, Plantation

Square feet: 660,000

Status: Building closed, foreclosure pending

Downtown at the Gardens, Palm Beach Gardens

Square feet: 337,000

Status: Sold in distressed purchase

Las Olas Riverfront, Fort Lauderdale

Square feet: 256,000

Status: Mostly vacant, bank owned

CocoWalk, Coconut Grove

Square feet: 200,000

Status: In settlement agreement and possible loan modification

PGA Design Center, Palm Beach Gardens

Square feet: 145,536

Status: Foreclosure case pending

Coral Landings III, Coral Springs

Square feet: 114,956

Status: Bankruptcy filing stayed foreclosure auction

Abacoa Town Center, Jupiter

Square feet: 113,692

Status: Foreclosure case pending