

Siffin's \$230M vision for Herald land tests limits of post-crash deals

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Indiana developer Mark Siffin's plan to move ahead with the \$230 million purchase of 10 acres near the Miami Herald headquarters sounds like a project from 2006 – when downtown Miami land sold at top dollar and banks handed out loans like promotional pens.

Now, many real estate experts are struggling to make sense of the high price, which doesn't include the cost of building the 1,600-space parking garage and two 20-story electronic billboards Siffin has proposed. Eventually, his City Square project would also include about 640,000 square feet of retail space – although no tenants have been publicly announced. In 2008, Siffin trumpeted Wal-Mart as a potential tenant.

Given that the cost of land acquisition and development could be upward of \$350 million for the whole project, many real estate experts are wondering if the investment is worth the potential return.

"It doesn't make sense," said Larry Gautier, senior VP with Colliers International in Miami and a veteran in retail development. "You can't make the numbers work. It's just too much money. It's the same formula that got us into trouble today."

To justify the acquisition and construction costs of City Square, Siffin would need to charge rents at least equal to that of Miami Beach's Lincoln Road, but that appears unlikely, given the location, Gautier said. That market is about five years away from having a need for more retail, he noted.

There are still sizable vacancies in the Shops at Midtown Miami, several blocks west of the proposed site.

Baybridge leader: offer \$80M for land

Comparing the plans for City Square to the value of other Miami-Dade County retail centers makes the project appear unfeasible, said Adam Greenberg, managing director of Miami-based BayBridge Real Estate Group, which handles real estate sales and financing. Almost the same size as the proposed City Square, Shops at Midtown Miami was purchased for \$38.5 million in 2008.

"So [Siffin] is going to do the same amount of retail for 10 times the land cost?" Greenberg said. "He should come back and offer \$80 million. That's what the site is worth now, and even that's aggressive."

Unlike during the boom, banks and Wall Street lenders are not making huge land construction loans. Most land construction financing is going to public or nonprofit groups through the bond markets – such as university and hospital projects.

The electronic billboard and parking garage features could generate some cash flow, but not nearly enough to justify a loan for most of the \$230 million purchase price, Gautier said.

“No one is getting financing like this right now,” he said. “It’s not going to happen.”

Both Siffin and real estate broker Edie Laquer, who is handling the sale of the land, declined to provide information about the project’s financing.

The only way Siffin could finance most of the City Square acquisition would be to pledge additional unencumbered properties as collateral for the loan, Gautier added.

Siffin’s company, Maefield Development, has developed numerous projects in the Midwest, California and South Florida. Some of them have been sold.

An accomplished painter, Siffin has proposed flashy billboards for many of his projects, starting in 2000 with the Sunset Millennium in West Hollywood, Calif.

In 2008, Siffin proposed LED billboards as part of the mixed-use Panorama Place project in the Los Angeles area. It has yet to begin major construction.

Two local garage projects were recently completed: the privately built 1111 Lincoln Road and Fifth and Alton, which was a private/public partnership. In the case of 1111 Lincoln Road, developer Robert Wennett had a number of retail tenants signed to space before construction began.

Developer Jeff Berkowitz copied his concept for South Miami’s Dadeland Station at Fifth and Alton, with both having big-box retailers in a vertical center. The parking feeds the retail and vice versa, a winning combination that is very attractive to lenders, even in this market, said Charles Foschini, vice chairman of debt and equity finance at CB Richard Ellis.

Foschini said Siffin is a capable developer with a track record of completing projects, and the idea of building a garage at the Herald site would respond to a great need for parking in the downtown area. But, without significant tenant preleasing for the parking, financing will not come easy. Siffin will also have to invest significant equity – as much as 35 percent. The likely lender would be a large regional or national bank that would originate the loan based on a syndication of a number of banks.

Mcclatchy endorses siffin’s vision

The Adrienne Arsht Center for the Performing Arts would be the natural tenant for the garage, a point not lost on Herald parent company McClatchy Co., which sent a letter in support of the controversial electronic billboards proposed for the top of the garage.

CFO Patrick Talamantes wrote the May 4 letter for McClatchy, which stands to win big if Siffin closes on the \$190 million contract for its land in 2011. Siffin has also paid Pedro Martin, the original holder of the \$190 million contract for the land, \$40 million for the flip.

“We at The McClatchy Company are impressed by the plans of Mark Siffin, together with Maefield Development, to develop the property adjacent to The Miami Herald building with media-oriented towers that include a parking garage to serve the Arsht Performing Arts Center and the surrounding area,” Talamantes wrote.

Jay Caplin, a managing partner of commercial real estate investor Steelbridge Capital, agrees that preleasing on the parking will be essential for the project, where construction of the garage portion alone could cost \$40 million – about \$25,000 per parking space, today’s going rate. The likely lender would be a regional or national player, at an interest rate of 7 percent to 9 percent. Caplin agrees that the equity investment would be high, in the 35 percent range, and Siffin would likely have to provide a personal guarantee for the debt on the garage.

If Siffin decided to go forward with the retail concept, the lender would require significant preleasing.

Caplin said the high land cost throws a typical cost vs. revenue projection for a loop.

“It seems like a highly speculative project,” Caplin said. “Besides the PAC, which has sporadic demand for parking, I don’t know where the demand is coming from. In the best of times, it’s challenging to get financing. In this market, it’s monumental.”

THE DETAILS:

Project comparison

Mark Siffin plans to buy 10 acres for \$230 million and then spend additional funds to construct a 1,600-space parking garage, two 20-story electronic billboards and, eventually, about 640,000 square feet of retail space. Here are the mortgages for other major retail projects in Miami-Dade County:

Aventura Mall

- Size: 2.8 million square feet
- Mortgage: \$430 million

Bayside Marketplace

- Size: 230,000 square feet and 1,200-space parking garage
- Mortgage: \$79 million

CocoWalk

- Size: 200,000 square feet

- Mortgage: \$98 million (facing foreclosure)

Dadeland Station

- Size: 350,000 square feet
- Mortgage: \$42 million

Dolphin Mall

- Size: 1.4 million square feet
- Mortgage \$139.9 million

Fifth and Alton

- Size: 180,000 square feet with 1,080 parking spaces
- Mortgage: \$60 million

1111 Lincoln Road

- Size: 165,093 square feet
- Mortgage: \$80 million

Shops at Midtown Miami

- Size: 600,000 square feet
- Mortgage: \$31.6 million