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Is Xanadu Meadowlands Not Meant to Be?

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Like the poetic fantasy that inspired its name, it seems the [Xanadu Meadowlands retail and entertainment complex](#) in northern New Jersey is destined to remain a pipe dream. The 2.3-million-square-foot development has been [plagued by bad luck](#) since its conception and had to halt construction last year after one of its principal lenders pulled its financing. Now, the New Jersey Governor's office has essentially labeled the project a failure, calling for Xanadu's current developer, Los Angeles-based Colony Capital LLC, to complete construction or turn the site over to the New Jersey Sports & Exposition Authority (NJSEA), which owns the land.

On Jan. 22, the office of New Jersey Governor Chris Christie made public a draft transition report by the New Jersey Gaming/Sports and Entertainment Committee which outlines a number of challenges facing Xanadu Meadowlands. Among these, the report cites a failed leasing plan, a frozen capital structure and virtual abandonment of construction activity. Much of the project's superstructure is completed, but the site remains dormant.

The Xanadu project needs both cash and tenants to complete their obligations to NJSEA. Both are missing, the document reads. Hence the original business model appears to have failed. The NJSEA need to engage the owners to either complete and open, or surrender the property.

Some of the problems with the development have been triggered by the credit crunch—for example, Colony Capital lost a large portion of its construction financing after one of the project's principal lenders, Xanadu Mezz Holdings, a non-bankrupt affiliate of Lehman Brothers, decided to back out of the deal. Since then, Colony and its affiliates have been shopping for an alternate lender, but have yet to

secure the \$500 million necessary to complete construction. But the project had been dragging even before that. It was originally slated to open in 2007 and its opening has been pushed back repeatedly. As it stands, the developers have no planned date for the project's opening.

Meanwhile, some tenants that have previously committed to Xanadu have delayed opening because of the uncertainty surrounding the project. Earlier this month, Tommy Millner, CEO of hunting, fishing, camping and outdoor recreation retailer Cabela's Inc., told investors it was highly unlikely that the chain would open its planned store at the project because of all the problems surrounding the complex. A spokesperson for Children's Place, another Xanadu tenant, said the company had signed a 5,000-square-foot lease for the property, but would not proceed with the build-out until the future of the project had been determined.

Retailers are only going to go where they need to be right now because they are facing internal budget constraints and ... there is uncertainty with what's going to happen with that project, says Michael Fasano, vice president and regional manager with the Elmwood Park, N.J. office of Marcus & Millichap Real Estate Investment Services. There are two or three different dynamics happening at the same time so retailers are saying "We'll sit and wait."

On the flip side, at least one large tenant that has committed to Xanadu has balked at taking an alternate location elsewhere in the area, notes Jerry Putterman, senior vice president in the Fairfield, N.J. office of real estate services firm Grubb & Ellis. If the complex ever opens, that tenant would clearly prefer to be at Xanadu, he says.

According to the report from the New Jersey Governor's office, most of the major tenants at the development have an escape clause built into their leases that would allow them to pull out of the project if leasing remains below a certain level.

More troubling still, Xanadu's chances of securing enough financing to finish construction remain low, according to William Procida, president of William Procida Inc., a Fort Lee, N.J.-based provider of management and capital services for real estate companies. The project was very aggressive to begin with, but the capital markets being what they are, you combine it with losing tenants, and it doesn't look good, Procida says. They are lucky the government has been so patient with them.

In Jerry Putterman's view, the project might have a better chance of securing a large equity commitment in place of a loan.

The Xanadu development was [ill-conceived from the beginning](#), notes Procida. He thinks the plan put forward by Hartz Mountain Industries back when the NJSEA was looking at development proposals in 2002 and 2003 would have a better chance of succeeding. Back then, Hartz Mountain and partner Forest City Ratner Cos. presented an \$815 million proposal to the NJSEA, which combined a convention center, several hotels and office buildings with a few stores and an indoor racing center. During the selection process, Hartz Mountain criticized Xanadu's original developer, the Mills Corp., for misrepresenting what it deemed to be essentially [another enclosed mall](#) as an entertainment complex.

We have plenty of shopping centers in New Jersey, Procida notes. They were trying to make the shopping center of all shopping centers, and while it's a highly visible spot, the egress is not the greatest. Everything is going against them—people are not spending, banks aren't lending, and they are already burdened with debt in excess of what it's worth.

A spokesman for Governor Christie's office said the state's Sports and Entertainment Committee was still in the process of determining its recommendations for the project. Both Colony Capital and NJSEA declined to comment directly, referring inquiries to an outside public relations representative who did not return calls.

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