

Developer defaults on loan for Nevada shopping center

Company officials say action is strategic move

By Pam Boyd

EAGLE VALLEY ENTERPRISE

EAGLE — RED Development, the developer of the proposed Eagle River Station project, has a second project in default, according to a report from the Kansas City Business Journal.

The report, published Jan. 31 in the Kansas City Business Journal, states RED Development has not paid the bills for nearly a year on \$141 million in private loans used to build its 148-acre Legends at Sparks Marina retail development in Sparks, Nev.

RED has missed \$141 million in principle and interest payments stemming from \$193 million in construction loans taken out in December 2008 to finance the \$400 million retail development. However, the Nevada development continues to open new attractions, including a new 103,000-square-foot Lowe's, and a Galaxy IMAX Theater has planned a 2012 groundbreaking.

RED Development has referred to the default as a strategic move that's part of an overall effort to renegotiate its loans and restructure its debt.

"It's a regrettable but necessary step toward refinancing," said Dave Clafin, vice president of marketing for RED Development, of the Sparks default.

"It is a step that will result in a new and improved financial structure for the development."

Eagle reaction

Eagle Mayor Ed Woodland said he is not overly concerned about the news regarding the Sparks Marina default.

"A strategic default is a tool available to businesses that is not available to individuals," Woodland said. "RED is just utilizing the leverage they have over their creditors."

Woodland said that if Eagle River Station were built and RED defaulted on its private loans in a scenario similar to what has occurred in Sparks, Eagle would not be financially liable for the debt under the terms negotiated by the town. However, Woodland said an estimated \$260 million worth of public improvements — such as a new Interstate 70 interchange, lane expansion along U.S. Highway 6 and water and wastewater extensions — would be completed up front as a condition of the Eagle

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River Station development.

"This default just shows that RED isn't immune to the pressures in this economy," Woodland said.

When contacted Monday, Adam Mayberry, Sparks community relations manager, said the Legends at Sparks Marina project was partially financed with public funds from Sales Tax Anticipation Revenue bonds — a public financing option available in Nevada. The STAR bonds are not in default.

Under the public bond terms, 75 percent of the sales tax generated at the Legends project goes to pay off the STAR bonds, which in turn paid for public improvements at the center. The remaining 25 percent of the revenue goes to municipal and state coffers.

Like the proposal in Eagle, Mayberry said if RED defaulted on its STAR bonds, the city would not be held financially responsible.

"In the case of Nevada, if the STAR bonds were defaulted on, it would be the responsibility of the investors," Mayberry said.

In examining the Legends at Sparks Marina default, Mayberry said the overall economic climate in Nevada — with a 12 percent unemployment rate — has had a detrimental impact on the project.

"Clearly they haven't been as successful as they anticipated," Mayberry said. "But that's likely because of the economy. It's (the Legends at Sparks Marina) a great development with some unique features."

In November, another RED project called Legends Outlets Kansas City defaulted on a loan for 658,000 square feet of retail space. At that time, RED Development partner Jeff McMahon said, "The fact is, the world of commercial real estate financing has changed significantly in the past few years, and it is not uncommon for banks and owners to place a loan in default while they are renegotiating financial terms."

McMahon said the Kansas City project was "not in distress, and it is 95 percent leased. All retailers are open for business, and this recent event will in no way impact sales at the shopping center."

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