

THE BOND BUYER

Bondholders left without American Dream mall debt service payment

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Holders of debt issued to fund the American Dream megamall in New Jersey have been left without a scheduled interest payment.

The Aug. 1 payment of \$8.76 million on \$287 billion of limited grant obligation revenue bonds issued by the Public Finance Authority could not be made, according to [a notice](#) posted on the Municipal Securities Rulemaking Board's EMMA disclosure website by the trustee for the bonds, U.S. Bank. The reserve account, containing \$862.12, lacked funds to make the payment to bondholders.

That reserve account was drawn down to make an interest payment after mall owner Triple Five failed to make another \$9 billion payment on the same bonds in February, according [to a notice](#) to bondholders.



August brought more missed and delayed payments for municipal bonds issued to finance the American Dream mall in East Rutherford, New Jersey. **Bloomberg News**

A separate offering of \$800 million of tax-exempt PILOT bonds has also seen [delayed payments to the trustee](#), though no payments to bondholders have been missed.

With a \$5 billion price tag, the retail and entertainment complex is America's most expensive mall.

Triple Five, which developed the similar West Edmonton Mall in Canada and Mall of America near Minneapolis, borrowed \$1.09 billion in municipal debt for the property to bring the stalled [Xanadu](#) project back to life.

American Dream includes attractions like an indoor ski slope, water rides, and an amusement park, as well as more than three million square feet of retail space.

Despite high hopes when the project was launched, profitability has eluded the mall since it opened its doors to shoppers in October 2019, following years of project delays and cost overruns and only months [before the pandemic](#) shuttered brick-and-mortar retailers.

In 2021, the mall made \$173 million in revenue but had \$232 million in expenses, according [to earning statements](#), resulting in a loss of \$60 million.

This year, even with an uptick in shoppers, revenue is still falling far below original estimates, according to Lisa Washburn, managing director at Municipal Market Analytics, independent research and consulting group.

"Foot traffic needs to be engaged in making taxable sales," said Washburn. "In New Jersey that's difficult."

State law makes clothing sales tax exempt and requires the mall to close its retail portion every Sunday.

Other potential revenue drivers, including the indoor waterpark, skating rink, and other entertainment attractions, aren't taxed either, making it likely American Dream is pulling in a "much more modest amount" of taxable revenue than originally estimated, Washburn said.

When the bond deals were negotiated, gross retail sales for 2022, not including revenue produced from entertainment and parking, were expected to top \$2.7 billion, with taxable sales making up \$1.5 billion of that total, according to Washburn.

The mall has earned only a fraction of that this year, however, with quarterly sales reports [posted](#) to EMMA [showing](#) it grossed just \$193 million off of all its attractions in the first half of 2022.

While the missed payment isn't a default under the specific terms of the bond indenture, according to the EMMA filing, it is the latest in a string of financial issues faced by Triple Five.

Triple Five [has previously blamed](#) shortfalls in the grant revenue bonds on the New Jersey Economic Development Authority's slow approval process for distributing grant payments meant to cover debt service from a state-backed economic development program.

It was "a host of issues" that truly contributed to the most recent missed payment, according to Washburn, including slumping taxable sales made at the mall, from which 75% are meant to go towards funding debt service on the bonds.

The offering document for the bonds establishes that grant revenue may be capped based on the number of sales and use tax generated at the mall and, though the New Jersey EDA couldn't be reached for comment this week, in July Virginia Pellerin, director of marketing and communication, said officials were reviewing "a significant amount of documentation that Triple Five is required to submit" for "a certification process that's largely focused on validating the cost."

Further woes for Triple Five include accusations by local officials that the company has failed to distribute funds due to municipalities surrounding the mall from the PILOT bond agreement.

With recession as well as wider profitability issues facing the mall industry nationwide, it seems the American Dream just "can't seem to catch a break," said Washburn.

Triple Five is still charging ahead with several high-profile openings at American Dream, including a new high-end food court and a Toys-R-Us that opened in late 2021, among other outlets. It also recently received a visit from Gov. Phil Murphy who told reporters he "didn't see the mall failing."