
ORANGE COUNTY BUSINESS JOURNAL

May 10, 2010

SunCal Stalls Project During Legal Fight with Lender

Bixby Hires CFO, Looks to Grow Holdings; Tommy Bahama Signs 20 Year Lease in Laguna

By Mark Mueller

RESIDENTIAL

Legal wrangling, rather than construction work, appears likely to be the biggest near-term source of activity at Irvine-based SunCal Cos.' largest proposed project, a 55,000-acre development planned just outside Albuquerque, N.M.

The mega-project, which SunCal runs as Westland DevCo LP, filed for Chapter 11 protection last month in order to stave off a foreclosure threat from the project's main lender, Barclays Capital Real Estate Inc., a unit of Barclays PLC.

Since the April 5 bankruptcy filing, there's been a flurry of court motions filed in the case, with Barclays looking to dismiss the case and move ahead with its foreclosure plans.

The lender asserts that the developer has made little to no progress on the project in terms of construction, land sales or securing state help to fund nearly \$1 billion worth of infrastructure work.

Since buying the land for \$250 million in 2006, the developer "has accomplished little of tangible benefit, is massively behind schedule and is now facing projected development costs that approach or exceed the potential value of the (project's 37,000) lots," said Ronald Greenspan, senior managing director for FTI Consulting Inc., a real estate restructuring firm, in a brief filed on behalf of the lenders.

Greenspan estimates the land to have a net present value of \$112 million. At the time of the bankruptcy filing, Barclays was owed about \$182 million.

A potential buyer had reportedly offered \$100 million for a bulk of the property in 2008, but it was turned down, according to Greenspan.

SunCal contends otherwise, saying the lender has engaged in "extensive half-truths and blatant inaccuracies" while seeking to get the bankruptcy filing dismissed.

One of the country's largest master developers, SunCal runs the Westland project as part of a partnership with financier D.E. Shaw & Co. of New York. D.E. Shaw has a 92.5% stake in Westland, with SunCal owning the rest, according to court documents.

SunCal officials don't appear concerned by the slow pace of development at the massive site, which has only brought in revenue of about \$14 million through March. Initial projections called for \$355 million of revenue by that time, according to Greenspan.

"It was never anticipated that the project would generate any meaningful income in the short term," said Frank Faye, SunCal chief operating officer, in a court filing.

The developer said it was banking on the property generating “substantial income” only after a long period of time, likely 20 years, Faye said.

COMMERCIAL

Irvine’s Bixby Land Co. has hired a chief financial officer with an eye on growing its portfolio of institutional grade properties.

The real estate investor and developer recently hired Martin O’Hea. He counts 27 years of industry experience and comes from Sares-Regis Group, where he was senior vice president of finance for the Irvine-based developer.

O’Hea will oversee all financial activities at the real estate investor and developer, directing capital market activities for Bixby’s 6 million-square-foot office and industrial portfolio and structuring the financing for future investments.

He replaces James Wolford, who recently took over the chief financial officer spot at Los Angeles-based Pacific Office Properties Trust Inc.

Laguna Lease

A long-shuttered historic building near one of Laguna Beach’s busiest intersections is set to reopen later this year.

Retailer Tommy Bahama signed a 20-year lease to take over the bottom floor at 424 South Coast Highway. The company will be taking up 6,000 square feet of space at the building, which is slated to reopen this fall.

About half of the space will be used by Tommy Bahama for a restaurant it will run, while the rest will be a retail store for the company, according to Dennis Weisberg, senior associate for Marcus & Millichap Real Estate Investment Services Inc., who along with Jack Hopkins represented the landlord in the deal.

The well-known site, across the street from Hotel Laguna and Main Beach Park, previously housed the Jolly Roger coffee shop for some 30 years, but it had been closed and under construction these past few years.

The tenant had been slated to move into the building shortly after the property was bought in 2006 for a reported \$11 million by local investor Sam Goldstein, a deal that Weisberg also worked on.

The slowing economy and changes in expansion plans for Tommy Bahama put the project in doubt for several years. Goldstein’s Laguna Beach-based Radford Ventures LLC filed a \$10 million lawsuit against the prospective tenant last year, citing breach of contract.

The lawsuit was resolved with the signing of the new lease, according to Weisberg.

The historic building also has about 6,200 square feet of available space on its second floor. The landlord’s looking to land another restaurant to take up that space, Weisberg said.