

Broadway Station bondholders still waiting for returns

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Six years ago, developers sold investors on a glitzy vision: One million square feet of office space, a thousand apartments and condos, restaurants, shops — the whole bit.

If investors would buy \$105 million of bonds in 2019 and 2023, the developers vowed to do what others had failed to do: Transform the former Gates Rubber Co. site in Denver into Broadway Station, a thriving 40 acres of transit-oriented redevelopment. A similar plan in the 2000s had been doomed by the Great Recession at the close of that decade.

Investors upheld their end of the arrangement, sending Denver-based Frontier Renewal and Broadway Station Partners \$105 million for infrastructure in the area. But the idea that bondholders were sold on has never been realized, meaning that most of their money has not been repaid through property taxes, as bondholders expected it would be.

Instead, a portion of the former Gates property, site of two ill-fated redevelopments in two decades, is now slated to be the future home of the Denver Summit FC, a professional women's soccer team whose stadium will largely be exempt from property taxes under a deal with the city.

"The city's actions are a significant breach of trust," said Joe Landen, the managing director at Lapis Advisers in Denver, which holds some of the Broadway Station bonds.

"Lenders provided funds that financed the public infrastructure improvements," he said of his investment fund and other bondholders. "To have the city turn around and approve a development and arrangement that benefits from these improvements, while actively eliminating the very source of revenue available to repay the lenders, will certainly be remembered."

The city has chosen an inauspicious time to irritate purchasers of municipal bonds, as voters are deciding whether to approve Mayor Mike Johnston's \$950 million Vibrant Denver bond, which will require repayment of nearly \$2 billion. Investors would be needed to buy those bonds. "Given the breach of trust the bondholders believe has occurred, I would expect the city's borrowing costs to increase going forward," said Landen, an accountant.

Summit controlling owner Rob Cohen, CEO of IMA Financial Group, and Johnston announced in March that they wanted to see the stadium built at the Broadway Station site. Weeks later, the Johnston administration said the plan would involve \$70 million in tax dollars — about \$50 million to buy the land and prepare it for development, and an additional \$20 million for infrastructure improvements in the area.

The stadium itself is to be built and owned by Cohen's ownership group.

An initial measure related to the plan was approved by the City Council in May in an 11-1 vote, but more approvals are needed.

Those involved with Broadway Station caution against speaking in absolutes or with any certainty about what is to come and what it means for Lapis Advisers or the other investors who bought bonds there.

"When someone says, 'This will not pay property taxes,' that is an ambiguous statement," said Geoffrey Propheter, an associate professor at the University of Colorado Denver who is an expert on stadium financing.

While the Summit stadium would not pay property taxes in the usual sense, it might still be responsible for business personal property taxes — though "local lawmakers in Colorado love giving personal property tax breaks in the name of economic development," Propheter notes — and for a leasehold possessory interest tax. Until the stadium is built and an assessor can determine what the team's interest in the land is worth, dollar figures are a mystery.

And, of course, there is no way to know what would be built at Broadway Station if not the soccer stadium. Office buildings? Unlikely in this commercial real estate market.

Propheter notes that Denver has a simple, if costly, option for pleasing bondholders.

"If it's a concern to city lawmakers, the council and mayor could just buy them out," Propheter said. "Where a project has an existing debt burden, you pay off those investors as part of the bond issuance for the new project. That's pretty typical."

He believes it is a bad look to sell bonds for one development and then switch to a second.

"Even if you get your money back, the fact is, that's not what you bought. That's not what you agreed to buy; that wasn't the plan when you sold me your debt. So, this makes Denver and the Broadway Station Metro Districts look bad to say, 'Joke's on you, thanks for buying our debt, we're going to change our plans,' " Propheter said, referring to developers' metro district.

"It is a moot point if the city steps in and satisfies bondholders, though," he added.

The mayor's office declined to comment on the predicament, as did the Summit, the president of the Broadway Station Metropolitan Districts, and Denver's Urban Renewal Authority.

As Landen sees it, the city's stadium deal with the Summit benefits landowners and team owners over the very people who made development at Broadway Station possible.

"How," he wondered aloud last week, "is this even possible under state law?"