

Cosmopolitan progress continues as financing remains uncertain

Cosmopolitan Resort & Casino is still a bustling, lively construction site with moving machinery and workers coming and going. Yet, the USD 3 billion megaresort project last month received a default notice from Deutsche Bank AG after payments on a USD 760 million construction loan came due the day prior. The notice additionally triggered technical defaults on another USD 175 million worth of debt.

Ian Bruce Eichner, the project's New York City-based developer, previously lost two Manhattan buildings to creditors in the early 1990s, including the 75-story CitySpire Center at 150 W. 56th Street and the 45-story Bertlesmann Building at 1540 Broadway Ave. Cosmopolitan's default notice came less than two weeks after the project's chief operating officer, Audrey Oswell, left the company for the under-construction Fontainebleau.

Sources close to the project say a financing pact is near with Hyatt Corp. Hyatt, through its Grand Hyatt brand, is managing the Cosmopolitan's hotel and condo-hotel rooms. It has contributed USD 50 million to the project thus far. Calls to the firm were not returned as of press time.

Perini Building Co., meanwhile, remains busy at work as the project's general contractor under a USD 1.925 billion guaranteed maximum price contract. Their construction contract carries USD 50,000-a-day in bonuses and/or penalties after Dec. 18, 2009. The 6.96-million-square-foot development is reportedly on schedule, despite two construction-related deaths since breaking ground Oct. 25, 2005. Cosmopolitan is about one-quarter complete, with USD 1.4 billion worth of work

left as of Dec. 31, or about 18 percent of Perini's current backlog, the company said in a statement. The project will hire 110 subcontractors, and 3,000 tradesmen during the peak of construction activity.

„We've reached an agreement where Deutsche Bank will pay us for the work performed," said Robert Band, Perini's president and COO. „They paid us and all the subs have been paid up to date."

Perini shares, however, sharply dropped by USD 10.05, or 26.6 percent to USD 27.65-per-share after news of the possible foreclosure. It has since rebounded some after news of the interim financing arrangement. Eichner had been reportedly searching for months to find new investors before receiving the default notice. He is working with both Merrill Lynch and Deutsche Bank to find additional capital. Calls to Eichner's representatives seeking comment went unreturned.

In a statement, however, he said, „This action by our lender comes as no surprise. With the current challenges within the real estate and debt capital markets, which are out of our control, being felt across the country, we both anticipated and planned for this." Backers reportedly want Eichner's investment entity – 3700 Associates LLC – to increase its project equity to at least 10 percent of the total cost before providing new financing. Its only contribution thus far is the 8.5-acre site purchased for \$ 90 million in 2004.

Cosmopolitan has reportedly sold 85 percent of its 2,184 condo-hotel units, which are investor-driven residences rented-out as guest rooms when not in use. But the project price tag has doubled since 2005 from USD 1.5 billion to USD 3 billion, largely due to scope-of-work changes and rising raw material costs.

„They added four floors to the east tower, and two to the west tower as a result of brisk condo-hotel sales," said Richard J.

Rizzo, vice chairman of Perini. „There are also new venues, showrooms, nightclubs and architectural embellishments.“

Cosmopolitan consists of two 600-foot-tall cast-in-place, blue-glass hotel and condo-hotel towers that rise from a four-level prism-shaped podium over a five-level, 3,800-space underground parking garage. Designed by Miami-based Arquitectonica, the project occupies 8.5 acres of prime Strip real estate at the northwest corner of Harmon Avenue and Las Vegas Boulevard South. Cosmopolitan's neighbors include the Bellagio, Jockey Club and MGM Mirage's USD 7.8 billion, 18.67-million-square-foot CityCenter where Perini is also general contractor. MGM Mirage had been rumored as being a potential project bail-out investor, along with Hyatt.

Cosmopolitan's crisis could be the tip of the iceberg as commercial property owners and developers face tough financial times ahead. Securities backed by subprime home loans seized-up last summer as loans defaulted. New York-based Moody's Investors Service last month warned that the construction and building industry default rate could reach 12 percent in 2008, with a possible 6 percent default rate in the hotel, gaming and leisure industries. It could have a potentially crippling impact on Las Vegas, which has USD 35 billion worth of hotels, casinos and resorts planned or underway, according to the Las Vegas Convention Visitors Authority.

„It has gotten tougher to get things underwritten,“ says Jeremy Aguero, principal of Applied Analysis, a Las Vegas economic research firm. „A lot of folks looking to come into this market are now taking a wait and see mode. They are being a lot more cautious.“