

General Growth Properties (GGP) **Equity Value Exists Even Under a Bankruptcy Scenario – Finally Time to Buy**

October 14, 2008 ■ Recent Price \$5.45 ■ DJIA 9,311 ■ RMZ 649

HIGHLIGHTS:

Overview: General Growth Properties (GGP) has become a sad case study of how even the most storied of real estate companies can be seduced into foolish and imprudent behavior by believing that leverage provides a free lunch. Despite the many lessons to be learned from the GGP saga, today's focus needs to be on how much value, if any, common shareholders might be able to extract from a deepening mess. An NAV analysis requires applying a cap rate of about 10% to GGP's mall portfolio before the NAV estimate hits \$-0-/share. Given that high-quality malls have not traded at cap rates as high as 10% during the 25 years for which we have data, it is likely that material equity value persists despite the enormous balance sheet challenges ahead.

GGP's Predicaments: GGP faces two enormous predicaments with regard to the right-hand side of its balance sheet. First, nearly \$22 billion of debt is maturing between now and the end of '12. This massive figure equates to roughly 60% of GGP's total asset value. Refinancing needs through '12 could prove very challenging even if most capital markets have stabilized. Second, GGP has two loans totaling \$900 million maturing at the end of November '08. It is hard to identify sources of capital that GGP could cobble together before the end of November in the event that these lenders refuse to provide an extension. GGP will also face nearly \$600 million of unsecured Rouse bonds maturing in March and April of '09. To the extent that GGP can not assemble enough cash to pay off these bonds, bankruptcy could emerge as a real possibility.

A Bunch of Lousy Options: Based on management's previous cavalier and dismissive responses to concerns about the company's ability to successfully deal with upcoming financing needs, denial appears to have been the order of the day. As a result, options such as forming joint ventures, selling properties, and/or issuing equity that could have played major roles in patching this leaky ship have all become much less attractive. Had key strategic options like these been pursued earlier, there is a strong chance that GGP might have survived with the Bucksbaum family still at the helm. That they were not has substantially lessened that prospect, and a sale of the company may now be the only sure way to avoid bankruptcy.

GGP on the Auction Block?: There is no way to know how seriously GGP's Board is considering the option of selling the company. The key unknown is the state of mind of the controlling Bucksbaum family. The one certainty is that their blessing on any deal is necessary. Keeping in mind that the family's recent stewardship has been both unpredictable and disappointing, it is very difficult to handicap what they might do next. Any auction will also be complicated by the fact that it will be difficult for even the largest real estate company to assume GGP's massive debt problems without blowing up its own balance sheet.

Some Twists and Turns: There are several important issues that will influence the future course of the GGP saga. First, the financial decisions to be made by GGP's Board and management will be affected by important potential conflicts of interest that the founding Bucksbaum family may have with other shareholders. Second, a lender skirmish could arise as these parties will need to address how to best protect their overall GGP exposure. Also, the roughly \$2.5 billion outstanding on its unsecured borrowings may be due sooner rather than later, as extension options may not be available to the REIT. Finally, the tax mess surrounding GGP's land business could haircut the price a buyer would likely pay to acquire the company. Nevertheless, bankruptcy could be the only course available to GGP if its lenders push for repayment and the REIT has not found the necessary cash.

There's Still Some Equity Left: The prospect of bankruptcy can not be ruled out for GGP. In most U.S. bankruptcies, the common equity gets wiped out. It is hard to envision a scenario for GGP, **at today's commercial real estate values**, where that would happen. If high-quality mall cap rates rise precipitously and/or NOI erodes in accordance with unprecedented negative consumer spending growth, a "go to \$-0-/share" scenario would be possible. But short of that, GGP faces an enormous liquidity challenge that might be addressed most effectively in a bankruptcy, yet still leaving something at the end of the process for the common equity investors.

Recommendation: The depressed valuation of GGP's shares serves as evidence that investors are assuming not only that a bankruptcy filing is likely, but that little, if any, equity value will survive should a bankruptcy occur. While it is normally appropriate to assume that shareholders will be wiped out in bankruptcy, a GGP filing would be triggered by a lack of liquidity as opposed to a lack of solvency. Should the near-term bankruptcy scenario be avoided, the company will need to devise a road map toward addressing the daunting issues looming in '10 through '12. Because it is doubtful that a credible plan can be cobbled together, the most likely outcome is that the company will choose to put itself up for sale.

We have had a SELL recommendation on GGP since 3/28/08. The stock price has fallen 86% since then. At the current price, **we herein upgrade our rating of GGP from SELL to BUY.**

I. Overview

General Growth Properties (GGP) has become a sad case study of how even the most storied of real estate companies can be seduced into foolish and imprudent behavior by believing that leverage provides a free lunch. The company's daunting capital needs, amidst a financing market that is all but closed for business, make the prospect of insolvency real enough that the REIT's shares are now trading well below its IPO price of 15 years ago.

The story of how the bluest of blue-chip real estate companies got itself into this predicament is full of fascinating lessons for all real estate market participants. However, that story is best left for another day. Today's focus needs to be on how much value, if any, common shareholders might be able to extract from a deepening mess. The debt market is betting that there is no equity value at all – GGP's unsecured corporate debt is trading at roughly 50 cents on the dollar. However, an NAV analysis requires applying a cap rate of about 10% to GGP's mall portfolio before the NAV estimate hits \$-0-/share. Given that high-quality malls have not traded at cap rates as high as 10% during the 25 years for which we have data, it is likely that material equity value persists despite the enormous balance sheet challenges ahead.

II. GGP's Predicaments

As outlined in a report we published in March '08 on GGP's daunting refinancing needs ([General Growth: A Case Study in Balance Sheet Distress](#)), the company faces two enormous predicaments with regard to the right-hand side of its balance sheet:

A Mountain of Financing Needs – The first of these pertains to the massive amount of debt maturing between now and the end of 2012. **Total debt maturities during that period tally nearly \$22 billion, a figure which equates to roughly 60% of GGP's total asset value.** Other funding needs could add \$3-4 billion to this total. As shown in Exhibit 1, most of these maturities occur later rather than sooner, but some of the refinancing needs in '10, '11 and '12 could nevertheless prove very challenging even if most capital markets have stabilized. This group of maturities includes a number of unsecured loans, as well as secured loans where loan-to-value ratios are fairly high. As was recently spelled out in [Heard on the Beach](#), a massive wave of prob-

lematic commercial mortgages will be maturing in '10, '11 and '12, which means that some of GGP's most challenging debt rollovers will be occurring at a time when the real estate capital markets are certain to remain unsettled, perhaps even dysfunctional.

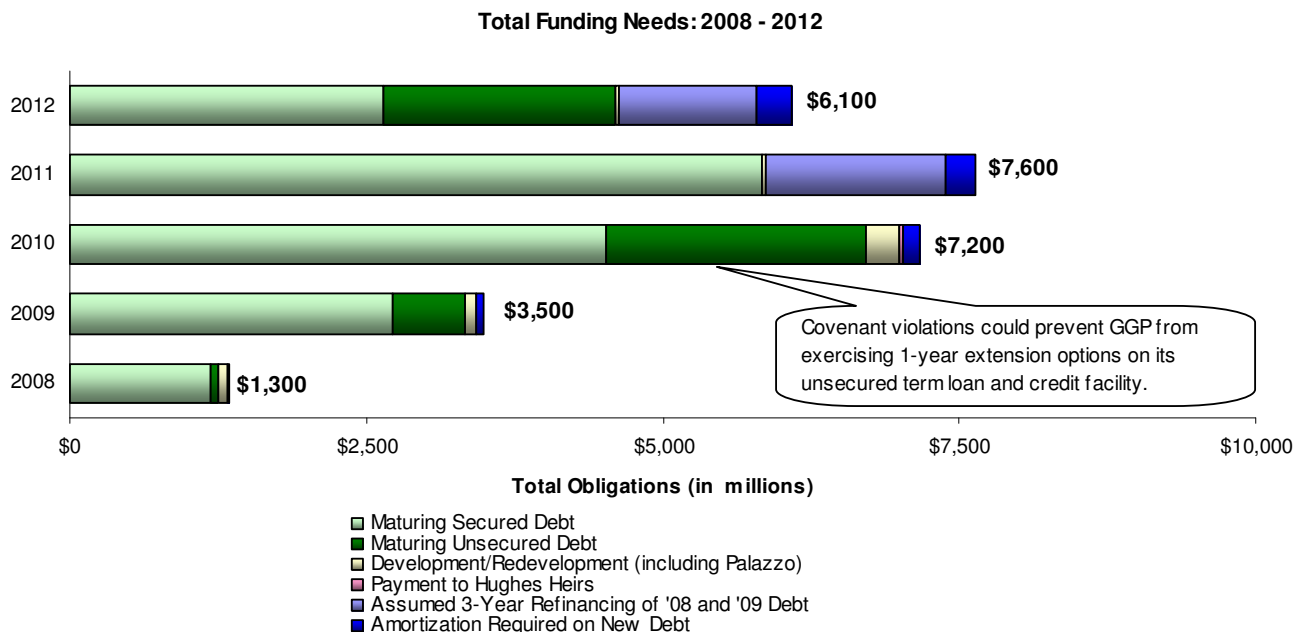
And Some Very Near-Term Maturities – At the end of November '08, two loans totaling \$900 million that are secured by Fashion Show Mall and Shoppes at the Palazzo in Las Vegas will mature. The loans are held by a group of banks and were expected to be repaid with the proceeds of a \$1-3 billion private CMBS origination that now seems unlikely to happen in the current credit environment. Some of the banks are also involved in GGP's \$2 billion unsecured term loan and its \$650 million line of credit, both maturing in '10. Consequently, their stance toward negotiating a possible extension of the secured loans in Las Vegas may be clouded by the residual impact that playing "hardball" might have on the unsecured loans they have also made. That said, it is hard to identify alternative sources of capital totaling \$900 million that GGP could cobble together before the end of November – short of a fire sale of some of its best assets – in the event that the bank group refuses to provide an extension.

The next big challenge will occur in March and April of '09, when \$595 million of unsecured bonds that were inherited in the '04 Rouse Company acquisition come due. The source of repayment is far from clear and the bondholders, in contrast to the Las Vegas bank syndicate, would seem to have little incentive to extend the maturity of the bonds. To the extent that GGP can not assemble enough cash to pay off these maturing Rouse bonds, bankruptcy could emerge as a real possibility.

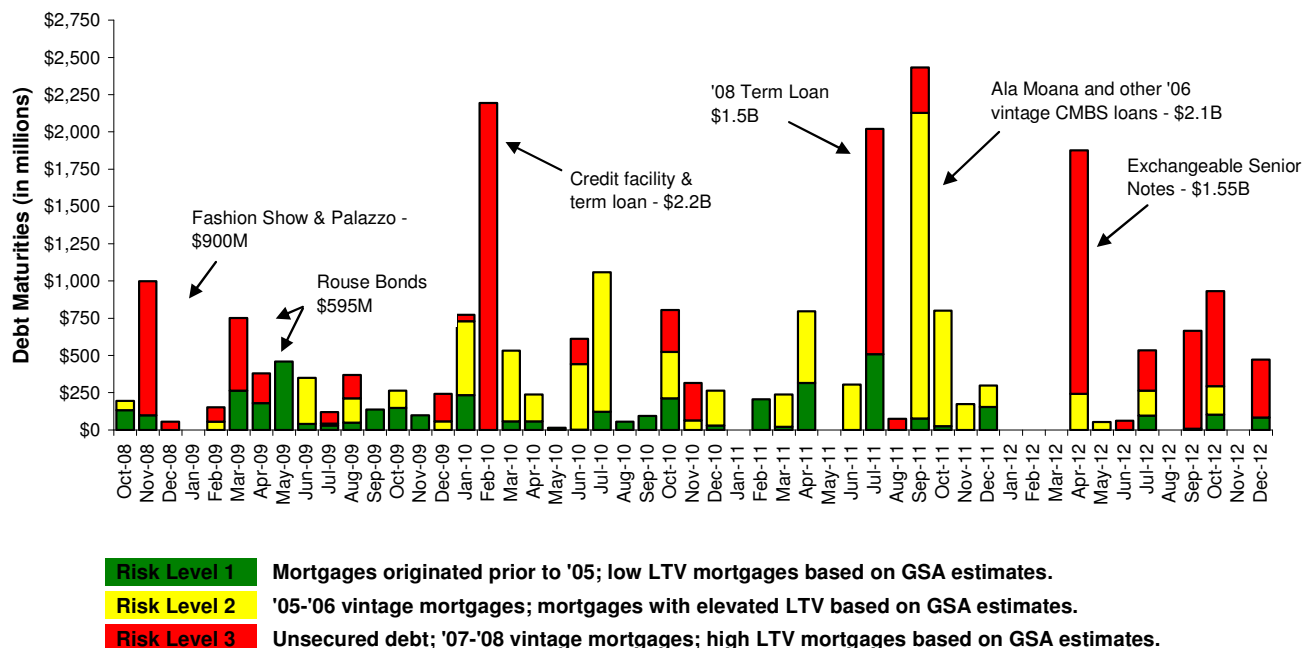
The balance of GGP's '08 and '09 funding needs are comprised primarily of maturing CMBS loans secured by higher-quality assets at reasonably low loan-to-value ratios. Mortgage financing should be available for many of these properties, albeit on conservative loan-to-value ratios that will limit potential excess proceeds that could be used to pay off other obligations, and at interest rates that will be higher than most of the maturing debt. As a result of the balance sheet distress that GGP now faces, the company needs to raise as much as \$1 billion over the course of the next month-and-a-half, \$4 billion over the course of the next year, and roughly \$20 billion over the course of the next three years. While it is not certain that any of these hurdles will prove insurmountable, each of them will be very challenging.

Exhibit 1

There is no easy fix for GGP's current balance sheet predicament because of high leverage and oncoming freight train loaded with near-term debt maturities and other funding needs. The most troublesome capital needs involve maturing unsecured corporate debt and recent-vintage mortgages where the loan-to-value materially exceeds current underwriting standards.



The timeline below depicts month-by-month debt maturities for GGP. The most concerning balance sheet grenades are concentrated in '10, '11 and '12. While the real estate capital markets could, indeed, be much healthier by then, any large-scale capital provider to GGP today will need a credible road map for dealing with the debt maturity challenges that will continue to cast a cloud over the next 4+ years.



Sources: Company disclosures and Green Street estimates.

A Property-by-Property, Loan-by-Loan Review of the Portfolio

GGP's management has not presented a credible road map for how it plans to solve its balance sheet woes. As a result, analysts/investors are forced to do their own analysis of the issues GGP is facing. Such an analysis, based on a property-by-property, loan-by-loan review of GGP's 200+ property portfolio, provides the support for some of the key findings in this report. Exhibit 1 assesses the risk associated with each piece of maturing debt on a month-by-month basis. The simple logic is that mortgages originated several years ago or earlier will prove much less problematic upon rollover than mortgages originated during more recent times when values were higher and terms were looser. The year of origination was divined by digging into every GGP supplemental disclosure packet from the last seven years. Similarly, GGP's ability to generate meaningful cash proceeds from property sales/JVs is assessed by estimating the prevailing loan-to-value ratio on every property in GGP's portfolio.

III. A Bunch of Lousy Options

Based on management's previous cavalier and dismissive responses to concerns about the company's ability to successfully deal with upcoming financing needs, denial appears to have been the order of the day. As a result, options such as forming joint ventures, selling properties, and/or issuing equity that could have played major roles in patching this leaky ship have all become much less attractive. The extent to which each of them can play a constructive role going forward is reviewed below.

- **Share Issuance:** A large issuance of equity a few months back might have saved the day. Now, however, the value of GGP's outstanding equity has dropped to under \$2 billion. It is therefore highly doubtful that billions of additional dollars could be raised via an equity issuance. The prospect of a White Knight (presumably in the form of a sovereign wealth fund, Warren Buffett, etc.) is similarly dubious, as the provider of the next slug of capital that goes into GGP will want a clear road map showing how debt maturities through '12 can be reasonably handled. That road map does not exist unless the capital injection is larger than seems likely for a company with so little in the way of current equity value.
- **Property Sales/Joint Ventures:** GGP is reportedly marketing a number of smaller properties, including some non-core retail properties and office buildings. However, much larger sales of whole or partial interests in properties will be necessary to "move the needle", and the company is likely (hopefully?) actively exploring this option. At first glance, this option would seem to hold considerable promise. After all, GGP's total leverage as a percent of assets is *only* 81%, which means that real equity does exist. Also,

the loan-to-value ratio on at least some secured debt is well below that figure.

Unfortunately, a property-by-property review of GGP's portfolio suggests that the preponderance of GGP's high-quality malls (it is doubtful whether a market to sell lower quality assets even exists) have high loan-to-value ratios, which means that net proceeds from most sales would be modest. To put this in perspective, at an average loan-to-value of 60%, GGP would need to sell 100% of about \$10 billion of properties – or nearly one-third of its mall portfolio – to raise net proceeds that would address its funding needs just through '09. As a result, property sales and joint ventures may well provide a way for GGP to muddle through some of its upcoming debt rollovers, but it is unlikely that they will provide anywhere near enough capital to address the large slug of '10, '11 and '12 maturities.

- **Leveraging Unencumbered Assets:** At several points this year, GGP management has pointed to financing its unencumbered assets as means of raising capital. Unfortunately, the pool is relatively small (approximately \$1-1.5 billion) and many of the assets consist of lower quality malls that likely could not be financed at all in the current market. New loans on unencumbered assets may help address some of GGP's pending debt maturities, but the help such a strategy provides is likely to be marginal.

Had key strategic options like sizable equity issuance, formation of large JVs, and/or property sales been pursued earlier, there is a strong chance that GGP might have survived with the Bucksbaum family still at the helm. That they were not has substantially lessened that prospect, and a sale of the company may now be the only sure way to avoid bankruptcy.

IV. GGP on the Auction Block?

There is no way to know how seriously General Growth's Board is considering the option of selling the company. The key unknown is the state of mind of the controlling Bucksbaum family. The one certainty, however, is that their blessing on any deal is necessary, as the company's bylaws grant the family extraordinary power to reject/accept any change of control. Keeping in mind that the family's recent stewardship has been both unpredictable and disappointing, it is very difficult to handicap what they might do next.

Should an auction of one of the most storied companies in the annals of U.S. real estate occur, it would undoubtedly generate a barrage of interest. Obvious suitors include Simon Property Group and Westfield Group, two very large and well-capitalized owners and operators of U.S. malls. Other prospective suitors include Unibail-Rodamco, one of the largest retail property owners in Europe, Vornado, a large

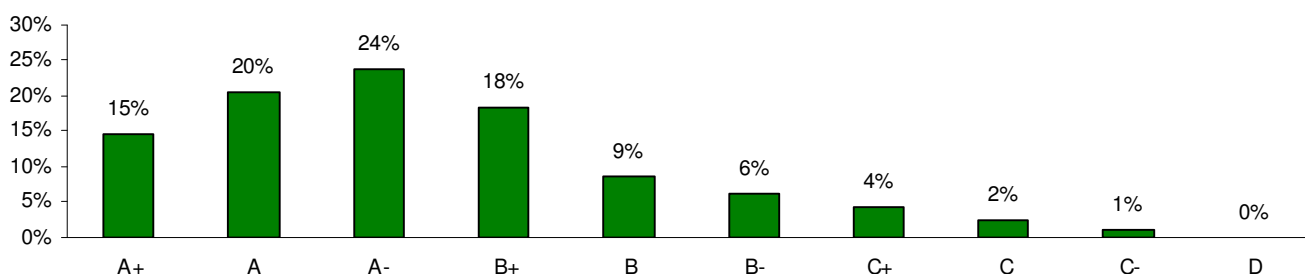
player in U.S. retail with an expressed desire to get bigger, and Brookfield Asset Management, a Canadian juggernaut that participated in the bidding for the Mills Corp. Suffice it to say that the mall sector is a business where economies of scale matter. New entrants to the space may be willing to pay up for the "platform value" inherent in becoming a member of a club of oligopolists, while existing large operators may pay up for the unique opportunity to gain dominant market share in certain geographic locations.

Any auction will be complicated by the fact that it will be difficult for even the largest real estate company to assume GGP's massive debt problems without blowing up its own balance sheet. Club deals may be the order of the day, but the prospect that more than one club could be formed leads to hope that "fire sale" pricing may not be necessary. Should a sale occur, and this remains a big "if", the revised GGP NAV estimate contained herein represents as good a guess as any as to how it might be priced.

Exhibit 2

GGP's mall portfolio includes many high-quality assets. About 60% of total NOI, and 70% of total value, come from malls that we rate as "A+", "A", or "A-" in quality [for individual property rankings, visit our Mall Database [here](#)]. Only 23% of NOI, and 17% of value, comes from malls ranked "B" or lower. The concentration of NOI and value in GGP's highest quality assets should serve as a strong enticement for potential suitors or bottom feeders.

NOI Estimate by Mall Quality



GGP has historically employed high levels of secured mortgage debt to finance its balance sheet. As a consequence, virtually all of its higher quality malls have existing mortgages, which limits the amount of equity value that could be extracted from sales, joint ventures, or new mortgage financings to help pay off the mountain of maturing debt faced by the company.

Property Grade	Average Loan to Value (1)	Number of Unencumbered Malls
A+, A, A-	65%	2
B+, B, B-	61%	3
C+ and below	68%	10

(1) GSA estimate based on vintage year of mortgage and property specific estimates.
Sources: Company disclosures and Green Street estimates.

V. Some Twists and Turns

There are several important issues that will influence the future course of the GGP saga:

The Bucksbaum Conflicts – The financial decisions to be made by GGP’s Board and management will be affected by important potential conflicts of interest that the founding Bucksbaum family may have with other shareholders. First, in August ’07 and March ’08, the Bucksbaums borrowed a total of \$588 million to purchase GGP stock at an average price of \$47/share. The family’s entire GGP stake, including these purchases and its prior holdings, is now worth roughly \$400 million. It is unclear how much of the \$588 million loan remains outstanding, but it is entirely possible that the amount exceeds the current value of the family’s entire ownership stake. Assuming the loan is fully outstanding, the Bucksbaums would need a breakeven selling price of roughly \$8.50/share. This figure could represent a lower limit on a price the Bucksbaum’s would accept even if other shareholders were willing to sell for something lower. Second, outright sales of certain malls could trigger a sizable tax event for the Bucksbaums, and they can be expected to resist any disposition structure that does not explicitly address their tax considerations.

Dialing Down the Dividend – GGP recently announced that it was suspending its dividend, which had been running at about \$150 million per quarter. For ’09, GGP will need to meet the minimum distribution test – 90% of taxable net income – to maintain its REIT status. However, we estimate the former dividend could be reduced by about 40%, which would preserve over \$200 million per year of much-needed capital. In addition, GGP could hold off

making any dividend payment until it wrapped up its tax books for ’09 in early ’10. Such a deferral could help address the ’09 funding needs even further. One related consideration is that the common dividend may have been an important resource towards funding the roughly \$20 million of interest expense on the \$588 million Bucksbaum loan referenced above. To the extent it has been, the Bucksbaums may be resistant to decreasing and/or deferring the common dividend.

A Lender Skirmish – As GGP is increasingly faced with maturing loans that it will have difficulty refinancing, the battle lines drawn between the armies of lenders seeking to get their money back is likely to cause some interesting skirmishes. The secured lenders, particularly of the CMBS variety, can be expected to push hard for repayment since the CMBS machine has been completely dismantled and bondholders will want repayment. In addition, the vast majority of those loans have loan-to-value ratios below 80%, and those lenders can credibly argue that seizing and liquidating the collateral is a legitimate course of action. GGP’s unsecured lenders consist primarily of banks and Rouse Company bondholders. The banks are in a particularly difficult spot since many are involved in secured loans as well, and will need to address how to best protect their overall GGP exposure. In addition, **a couple of these banks have been hired to advise GGP on strategic alternatives, which raises the question of potential conflicts of interest with other lenders, as well as the common equity holders.** The Rouse bondholders are expected to dig in their heels at maturity because they can, and this prospect places severe limits on the company’s overall financial flexibility.

Exhibit 3

Our interpretation of the “change in control” language in GGP’s Operating Partnership Agreement concludes that the founding Bucksbaum family has an effective veto right over the proposals presented by potential suitors. Those takeover hurdles would likely be greatly diminished if GGP declared bankruptcy and a judge – rather than the Bucksbaums – were to decide the best course of action. Complicating the decision making is the enormous loss of net worth by the Bucksbaums, which may have been exacerbated by a reported \$588 million loan used to buy shares at an average price of \$47/sh over the past 14 months.

Date	GGP Share Price	Bucksbaum’s Approximate GGP stake	Approximate Value (in millions)
27-Mar-07	\$67.00	20%	\$4,000
14-Oct-08	\$5.45	23%	\$400

Sources: Company disclosures, Bloomberg and Green Street estimates.

Exhibit 4

By digging into the GGP supplementals, investors can determine the vintage of GGP's mortgage loans. After factoring in increases in mall values since mortgage origination and growth in NOI, an approximate value for each property can be determined.

<i>(in millions)</i>	2009	2010	2011	2012
Value of malls with maturing mortgages	\$4,600	\$6,800	\$11,000	\$3,600
Mortgage balance	\$2,500	\$4,200	\$7,100	\$2,500
Assumed LTV of maturing mortgages	55%	62%	67%	69%

Mall values have fallen by roughly 30% since their peak in '07 given the deteriorating retail fundamentals and strained real estate capital markets. Capital for high-quality properties will likely be available, albeit at loan-to-values approaching 50%, while lower-quality properties might not be financeable under any terms.

<i>(in millions)</i>	2009	2010	2011	2012
Value of A & B malls with maturing mortgages	\$3,600	\$5,800	\$8,400	\$3,000
Value of new loans at 50% loan-to-value	\$1,800	\$2,900	\$4,200	\$1,500

With falling asset values, lower loan-to-values, and no interest in lending on C-quality properties, GGP might face the choice of writing a big check before refinancing with a new, smaller mortgage, finding a partner to write said check, or handing the keys back to the lender.

<i>(in millions)</i>	2009	2010	2011	2012
Current balance of A & B quality mall mortgages	\$2,300	\$4,200	\$6,600	\$2,500
less Potential proceeds from refinancings	\$1,800	\$2,900	\$4,200	\$1,500
<i>equals Capital required to fund shortfall</i>	\$500	\$1,300	\$2,400	\$1,000
<i>plus Capital required for C-quality mall maturities</i>	\$200	-	\$500	-
<i>equals Total capital required</i>	\$700	\$1,300	\$2,900	\$1,000
			Cumulative	\$5,900

The shortfall from the company's mortgage refinancings makes its unsecured loan maturities and other funding needs particularly problematic. Joint-ventures and core asset sales, or a huge corporate-level capital injection, have to be part of the game plan.

2008 - 2012 Cumulative Capital Needs

<i>(in millions)</i>	Uses
Mortgage Refinancing Shortfall (1)	\$6,200
Unsecured Debt Maturities	\$4,800
Other Funding Needs (2)	\$550
Total New Capital Needs '08-'12	\$11,550

(1) Includes estimated '08 shortfall of \$300M.

(2) Includes development/redevelopment (including Palazzo) and estimate of Hughes payment.

Sources: Company disclosures and Green Street estimates.

Is the Extension Available? – GGP has a \$2 billion unsecured term loan and a \$650 million unsecured revolving credit facility that both mature in April '10. The two loans have one-year extension options that we previously assumed would be exercised, pushing the potential \$2.65 billion funding need into '11. Upon further review of the loan agreements, it is much less clear that the one-year extensions are a given. The key reason is that there are two impor-

tant covenants – an interest coverage ratio and a leverage ratio – that GGP seems destined to breach. As of 2Q08, the interest coverage ratio was 1.66X versus the 1.6X minimum. With every refinancing, GGP is replacing low-cost debt with higher-cost instruments, and the 1.6X minimum interest coverage does not seem likely to hold up.

GGP does not disclose where it stands on the convoluted leverage ratio calculation, but we understand it was approximately 65% at the end of 2Q08 versus the 70% maximum per the covenant. Two things stand out regarding the leverage ratio covenant. First, GGP's community development business is valued at market. Earlier this year, the REIT revealed that the market value estimate had surprisingly **increased** despite the housing bust that has occurred in Las Vegas, GGP's primary community development market. Our NAV estimate now values the business at just 10% of GGP's estimated market value. That 90% haircut would push the leverage ratio calculation toward the 70% maximum. Second, the retail properties are valued at a 6.75% cap rate in the calculation, but that figure will be reset at the time GGP requests an extension. Our interpretation

of the loan documents is that the revised cap rate will be established by a majority of the bank group. Given the current retail outlook, the new figure is likely to be much higher than 6.75%, which would jeopardize the possibility of an extension. Given the uncertainty surrounding the extension, our analysis now assumes the \$2.65 billion will be due in April '10 (not '11), thereby accelerating this refinancing hurdle.

Tax Mess – One of the most complicated items on GGP's balance sheet is the \$850 million (over \$2.50/share) deferred tax liability, most of which stems from the community land development business inherited in the Rouse company acquisition. The deferred tax liability associated with operating properties can usually be deferred for extended periods, even when properties are sold, through 1031 ex-

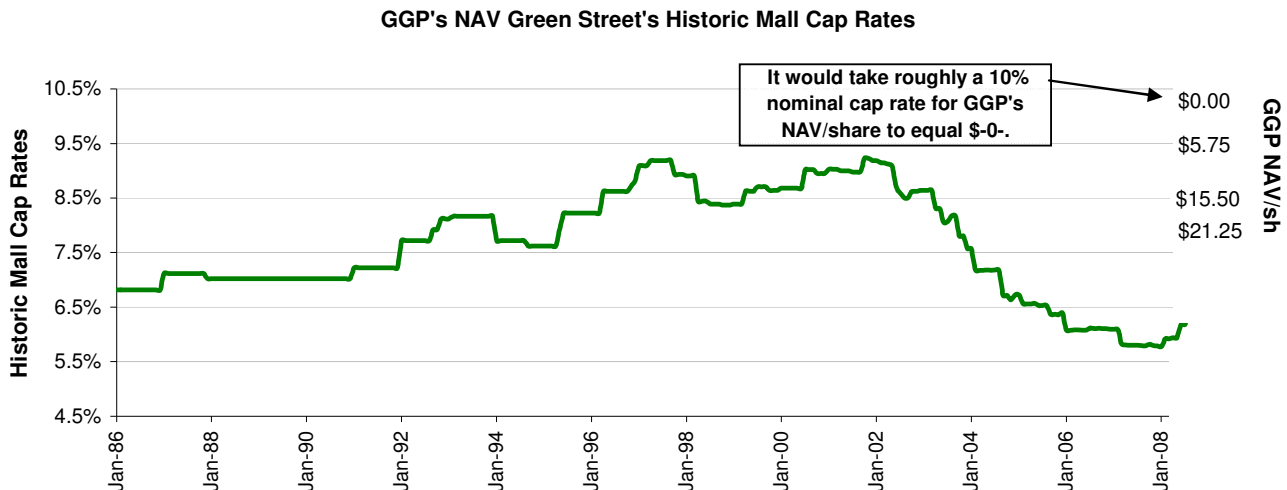
Exhibit 5

The key question for REIT investors is how much equity, if any, is left after addressing GGP's leverage and future capital needs, combined with a likely decrease in mall values in response to deteriorating capital market and retail market fundamentals. It would take an average cap rate of roughly 10% for GGP's mall portfolio to cause the NAV/share to fall to \$-0-.

Nominal Mall Cap	GGP NAV/sh (1)
8.0%	\$21.25 (2)
8.5%	\$15.50
9.0%	\$10.25
9.5%	\$5.75
10.0%	\$1.50
10.2%	\$0.00

(1) Assumes community development business is valued at 10% of appraised value; forward 12-month NOI growth is 1.5%; management business is valued at a 5X multiple; CIP is valued at 90% of cost; and below-market, fixed-rate debt has a value of about \$1.25/share.
 (2) Green Street's revised NAV estimate.

As the following chart shows, mall cap rates would need to rise higher than any point for which we have data in order for GGP's NAV to approach \$-0-.



changes and other structures. It is often more difficult to prevent triggering a cash tax payment in transactions involving land sales. At the end of '07, GGP entered into a very complex transaction that involved shifting deferred tax liability from the land to legacy Rouse operating assets, somehow through the use of a taxable REITs subsidiary. We don't pretend to understand what GGP did. And that's the point – issues surrounding the tax liability could affect the ultimate valuation of GGP, as well as the flexibility a potential acquirer might have to sell or finance certain Rouse operating properties and land holdings.

Our current NAV estimate includes roughly \$365 million in tax liabilities and assumes the balance could be deferred indefinitely. The \$365 million is based on a scenario where GGP remains a going concern and eventually pays that amount in cash tax. If a potential buyer of GGP had to pay an amount closer to the deferred tax liability, then the NAV estimate would be reduced by roughly \$1.50/share.

Is Bankruptcy on the Table? – The first test will come in November '08 (Las Vegas mortgages) and the next assessment will come in March/April '09 (Rouse bonds). If the Las Vegas loans are extended, GGP seems likely to be able to assemble enough capital to pay off the Rouse bonds, primarily through the suspension of its dividend and a little bit of capacity on its line of credit. A much higher level of pressure is likely to come in early-'10 when nearly \$2.65 billion of unsecured debt comes due. These three debt maturity dates represent the big ticket

items that could force a filing. The smaller debt maturities are not problematic individually, but the individual fires could potentially build into a firestorm if growing angst over mall operating fundamentals hinders GGP's efforts to access mortgage debt on even a conservative basis.

The bottom line is that the Bucksbaums have an unusually strong incentive to keep GGP out of bankruptcy, since corporate governance shortcomings grant the family substantial control over the REIT's properties and strategy. In a bankruptcy scenario, much of that control would be handed over to a judge who would likely be less interested in the emotional ties of the founding family to its mall portfolio and more interested in implementing a plan that allows creditors to receive back as much of what they are owed as possible. Nevertheless, bankruptcy could be the only course available to GGP if its lenders push for repayment and the REIT has not found the necessary cash.

V. There's Still Some Equity Left

Mall operating fundamentals continue to come under significant pressure, and the critical Holiday season is shaping up as one of the worst in decades. The post-Holiday bankruptcy pace is also destined to be the worst in some time. The mall REITs that own high-quality properties – including GGP – have reservoirs of embedded NOI growth that will likely cause same-property NOI growth to be modestly positive in '09. Nevertheless, the combination of expected occupancy declines and falling market

What Are Malls Worth?

At the beginning of this month, we increased the cap rates we ascribe to malls: the average for our coverage universe is now 6.7%. This represents an increase of 120 bps from the peak pricing days of '07, and translates into a decline in unleveraged asset values of nearly 15%. Though recent, this tweak in cap rates is already in need of revision, as cap rates are moving upward so quickly that estimates become obsolete by the time the ink dries. In light of recent huge increases in yields on moderate-risk, fixed-income alternatives (the average Baa corporate bond yield is up roughly 100 basis points over the past two weeks), it seems certain that if sales of malls occur in the next six-to-twelve months, cap rates will be substantially higher than what is currently incorporated in our NAV estimates. Also, the outlook for intermediate-term cash flow has taken a decided turn for the worse.

We will be revisiting all cap rate and cash-flow growth assumptions in the not-too-distant future. For the sake of all valuation estimates in this report, including the discussion of GGP's NAV and all loan-to-value ratios, an assumption is made that the average mall cap rate has moved upward by over 100 basis points. This sizable increase in mall cap rates coincides with the aforementioned rising Baa corporate bond yield in recent weeks. As a result, the average cap rate applied in valuing GGP's portfolio is 8.0%, which translates to an NAV estimate that is nearly 70% lower than the '07 peak. The decline in GGP's asset value from peak levels is roughly 30%. At that value, overall balance sheet leverage rises to roughly 81%.

rents (a measure we call revenue per available foot – RevPAF) has a negative impact immediately on mall values. In addition, the spectacular repricing of assets of all types in recent weeks suggests that total returns required by investors have risen materially.

GGP's high leverage causes relatively small changes in cap rates and unleveraged mall values to have a large impact on NAV. At a revised nominal mall cap rate of 8.0%, which is over 100 basis points higher than we were utilizing at the beginning of October (see the box on page 9 for an explanation), GGP's NAV estimate is about \$21.25/share. At a 9.0% cap rate, the NAV estimate of roughly \$10/share is still 80% higher than the current share price. **It is not until the cap rate assumption approaches roughly 10% that the NAV retreats to \$-0-/share.** High-quality mall cap rates, going back to the early '80s, have never been as high as 10%, even during periods with much higher interest rates.

As explored above, the prospect of bankruptcy can not be ruled out for GGP. In most U.S. bankruptcies, the common equity gets wiped out. It is hard to envision a scenario for GGP, **at today's commercial real estate values**, where that would happen. If high-quality mall cap rates do rise to 10+% and/or NOI erodes in accordance with unprecedented negative consumer spending growth, a "go to \$-0-/share" scenario would be possible. But short of that, GGP faces an enormous liquidity challenge that might be addressed most effectively in a bankruptcy, yet still leaving something at the end of the process for the common equity investors.

VI. Recommendation

The depressed valuation of GGP's shares serves as evidence that investors are assuming not only that a bankruptcy filing by General Growth is likely, but that little, if any, equity value will survive should a bankruptcy occur. While it is normally appropriate to assume that shareholders will be wiped out in bankruptcy, a GGP filing would be triggered by a lack of liquidity as opposed to a lack of solvency. Indeed, a bankruptcy filing that occurs sooner rather than later would actually represent a welcome catalyst for a change of control, as a judge would be empowered to find a solution that maximizes proceeds to creditors, and suitors may come out of the woodwork. Should the near-term bankruptcy scenario be avoided, the company will need to devise a road map toward addressing the daunting issues looming

in '10 through '12. Because it is doubtful that a credible plan can be cobbled together, the most likely outcome is that the company will choose to put itself up for sale.

Given the numerous conflicts of interest that exist with the Bucksbaum family and the heavy costs associated with financial distress, it is unlikely that a sale will generate proceeds in line with our revised \$21.25/share NAV estimate, but the fact that there is a very large cushion between that value and today's share price provides reason to believe that upside potential greatly outweighs downside risk. As a result, **we herein upgrade our rating of GGP from SELL to BUY.**

Jim Sullivan
Benjamin Yang, CFA
Mike Kirby

Appendix A

Value of GGP's Operating Real Estate

(in thousands, except per share)

LTM NOI	\$2,538,377	
Adjustments to NOI		
Mid-period activity adjustment	\$69,079	Same-Prop
Actual lease termination fees	(\$56,594)	NOI Grwth
Normalized lease termination fees	\$16,000	1.50%
Internal growth	\$37,985	
Current quarter growth	\$9,496	
Total adjustments	\$75,966	

Forward-year NOI **\$2,614,343**

Selection of Cap Rates	Econ. Cap Rate	Cap-ex as % of NOI	Pct. of Portfolio	Nominal Cap Rate	Cap-ex	Forward-look NOI	Current Value
Regional malls	7.16%	10.5%	96.0%	8.00%	\$263,526	\$2,509,769	\$31,372,112
Strip centers	7.11%	7.6%	2.3%	7.70%	4,471	\$58,823	763,931
Office	6.46%	15.0%	1.8%	7.60%	6,863	\$45,751	601,987
Total/weighted average	7.15%	10.5%	100.0%	7.99%	\$274,859	\$2,614,343	\$32,738,031

Total operating value of real estate **\$32,738,031**

Appendix A (continued)**GGP NAV Estimate***(in thousands, except per share)*

<u>Assets</u>		<u>Liabilities and Equity</u>	
Current value of operating real estate	\$32,738,031	GGP mortgage debt	\$21,613,379
Management business (1)	141,895	Unsecured debt	2,646,300
Estimated value of development pipeline (2)	1,369,920	Value of option on 3.98% convertible notes (4)	1,550
Cash and cash equivalents	87,444	Pro rata share of JV debt	3,214,822
Land for development and sale at (3):		Value of mark-to-market debt	(436,606)
- Summerlin (Nevada)	69,408	Payables and accrued expenses, tangible	1,024,233
- Columbia (Maryland)	50,250	Est. share of JV payable and accruals	237,706
- Bridgelands (Texas)	137,304	Contingent Liability at Summerlin (5)	34,704
- Woodlands (Texas)	127,707	Tax liability associated with land business (6)	(135,278)
Receivables less straight-line rent receivable	151,434	Deferred tax liabilities (7)	362,136
Prepaid and other tangible assets	343,036	Est. payment of GGP/Homart II lawsuit	80,303
4 Mervyn's sites	9,000	Total liabilities	\$28,643,249
Est. share of tangible JV non-operating assets	299,356	(% of assets)	80.6%
Total assets	<u>\$35,524,784</u>		
		Preferred stock	121,482
		Total liabilities and preferred stock	\$28,764,731
		(% of assets)	81.0%
		Estimated Net Asset Value	\$6,760,053
		Shares outstanding	267,675
		Units outstanding	51,832
		Dilutive effect of options	130
		Total shares/units outstanding	<u>319,637</u>
		Diluted NAV/sh	<u>\$21.15</u>

(1) 5X multiple on trailing income.

(2) Reflects current CIP balance plus present value of potential value creation upon completion. Includes share of JV CIP.

(3) Green Street estimate of value and estimate for JV stake in The Woodlands.

(4) Green Street estimate.

(5) Green Street estimate of contingent stock payment to the Hughes heirs, discounted to reflect payment in '10.

(6) Green Street estimate of taxes associated with future land sales, adjusted for amounts already accounted for in the deferred tax liability, discounted to reflect future payment.

(7) Green Street estimate of deferred tax liability that will eventually be paid, discounted to reflect future payment.

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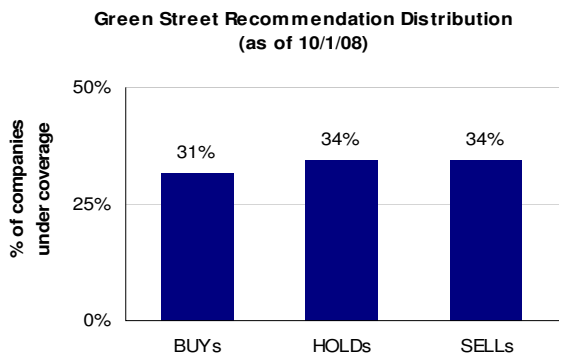
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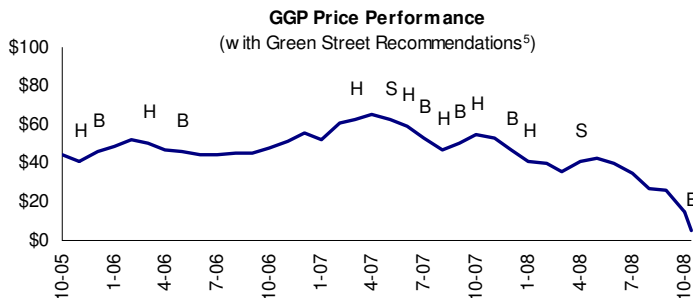
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Year	Buy	Hold	Sell	NAREIT Eqty ⁴
2008 YTD ³	10.6%	6.3%	-9.3%	1.8%
2007	-6.5%	-22.3%	-27.6%	-15.7%
2006	45.4%	29.9%	18.4%	35.1%
2005	26.3%	18.3%	-1.9%	12.2%
2004	42.3%	28.4%	15.6%	31.6%
2003	42.7%	37.2%	20.9%	37.1%
2002	17.7%	2.6%	1.9%	3.8%
2001	35.7%	19.1%	11.9%	13.9%
2000	53.6%	29.3%	4.4%	26.4%
1999	14.2%	-9.2%	-20.2%	-4.6%
1998	-0.6%	-15.1%	-16.4%	-17.5%
1997	37.1%	14.2%	5.8%	20.3%
1996	47.3%	30.2%	17.5%	35.3%
1995	23.6%	14.3%	-0.4%	15.3%
1994	20.5%	-0.7%	-9.3%	3.2%
1993 ³	29.4%	5.4%	6.7%	12.4%
Total Return³	4075.0%	383.6%	1.3%	499.9%
Annualized	26.9%	10.6%	0.1%	12.1%

The chart below shows GGP's price performance over the last three years, along with Green Street's recommendations during that time.



1) Historical results through January 3, 2005 were independently verified by Ernst & Young, LLP. E&Y did not verify stated results subsequent to January 3, 2005. Past performance results cannot be used to predict future performance. For a complete explanation of study, see 5/9/03 report "How are We Doing?".
 2) Company inclusion in the calculation of total return has been based on whether the companies were listed in the primary exhibit of Green Street's "Real Estate Securities Monthly", pg. 13-16. Beginning with May 2000, Gaming C-Corps and Hotel C-Corps, with the exception of Starwood Hotels and Homestead Village, are not included in the primary exhibit and therefore not included in the calculation of total return. Beginning with March 2003, all Hotel companies are excluded.
 3) Study uses recommendations given in Green Street's "Real Estate Securities Monthly" from January 29, 1993 through October 1, 2008.
 4) Not directly comparable to Green Street's performance indices because NAREIT includes more companies and uses market-cap weightings. Green Street's returns are equally-weighted averages.
 5) Green Street has only three recommendations: BUY ("B"), HOLD ("H") and SELL ("S"). The firm does not consistently publish price targets and therefore price targets are not included in this graph.

Green Street will furnish upon request available investment information regarding the recommendation.