Reggie Middleton's Boom Bust Blog

GGP and the type of investigative analysis you will not get from your brokerage house

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This missive is more than probably any outside investor in GGP knows about GGP, plus some. The accuracy of the contents below is not guaranteed nor warranteed in any form or fashion. I try my best to be accurate and exact, but things do happen - thus all contents in this post is based upon information and belief. Thus, I invite all to roll your sleeves up, and dig in to do some research for yourselves. This is the type of research that I expect to come from my local brokerage houses. It doesn't happen, thus I must do it myself. Please be aware that I have a bearish position in GGP stock. Read this complete missive, and it will be easy to understand why.

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Must read content tie-ins

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  - Do you remember when I said Commercial Real Estate was sure to fall?
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  - Generally Negative Growth in General Growth Properties - GGP Part II
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  - Press release announcing new equity financing - something that I didn't explicitly model in my own analysis, but after reviewing information without the benefit of official documentation, there were no surprise nonetheless...
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-

The Asset Securitization Crisis: Selected reading. This is not a must read, but does go a long way in explaining why GGP will be more than hard pressed to obtain bank financing.

- Intro: The great housing bull run - creation of asset bubble, Declining lending standards, lax underwriting activities increased the bubble - A comparison with the same during the S&L crisis
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Short summary of the 3 elements of this report

There is very clear evidence that GGP is heading into a refinancing-induced liquidity crunch.

One-time items are holding up deteriorating core operational performance.

There is evidence that GGP is misrepresenting itself and breaking securities laws.

Many themes currently broadcast in the news directly apply to GGP – its situation is one of high leverage in the face of a weakening consumer and an evaporating debt market. It's a family-run business that tripled its size through a major acquisition when the debt markets were healthy, and is now left scrambling. There appears to be dissension between the founding father and his now-CEO son over some of the tactics that they have resorted to recently, which appear to be questionable. If the core operations continue to deteriorate in the continued absence of a functional debt market, the 2nd largest mall REIT in the US will simply run out of cash and no amount of accounting or financial gimmickry will be able to hide that fact.

Background Information on the founding Bucksbaum Family

The Bucksbaum family founded and has run General Growth, in various legal forms, since 1964. Martin and Matthew Bucksbaum were the original founders, forming the General Growth Properties REIT in 1964. In 1972, General Growth was listed on the NYSE. In 1984, General Growth sold its 19 malls to another company and liquidated the REIT, but continued to manage subsequently. A large acquisition in 1989 made General Growth the second largest mall manager in the US, and in 1993, General Growth did an IPO to form GGP, the legal entity we see today. In 1999, Matthew Bucksbaum stepped down as CEO and John Bucksbaum ('JB'), Matthew's son, replaced him. In November 2004 (mid-point of the real estate and credit bubble), GGP completed the $14 billion Rouse acquisition, which established GGP as the 2nd largest mall REIT. In August 2007, MB stepped down as Chairman of GGP, and was replaced by JB.

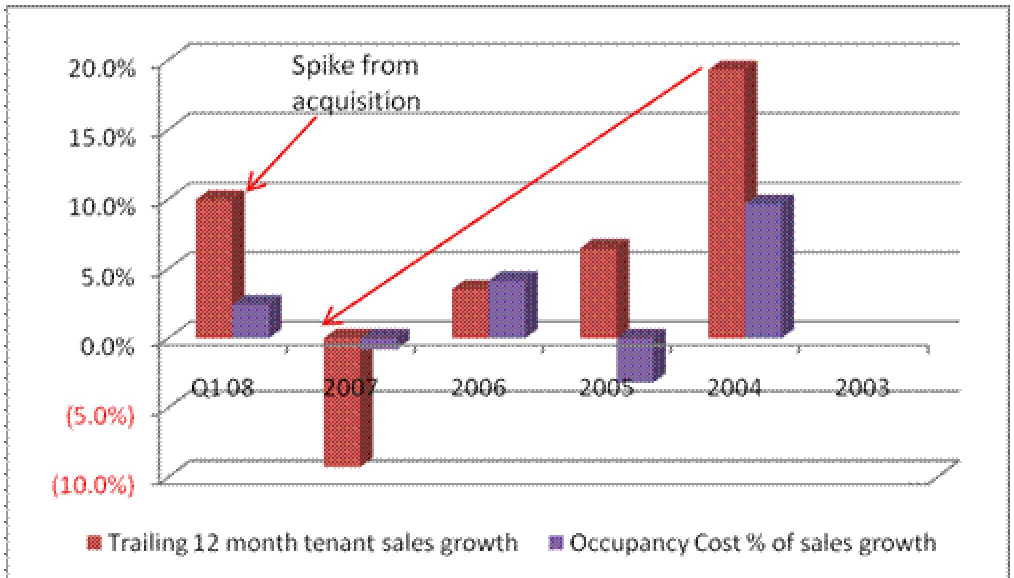
Background Description of General Growth Properties' Business

General Growth Properties is the 2nd largest mall REIT in the US. It buys malls, financing the purchases with equity and a combination of secured and unsecured debt. On May 14th 2008, GGP had $27B of net debt after adjusting for pro rata joint venture debt and $11.3B of equity, implying a total debt to capitalization of 70.6%. Along most metrics, GGP is the most highly levered publicly traded mall REIT. Malls are typically put in 3 categories – Tier 1, Tier 2 and Tier 3 – based on the average sales per square footage of the mall. As of early 2006, GGP controlled approximately 18.3% of the regional mall market, with 5% of the Tier 1 market, 6.8% of the Tier 2 market, and 6.5% in sub-Tier 2 properties.

Unlike most of the major mall REITs, 70% of GGP's debt is in the form of traditional secured mortgage debt. Most of the secured debt comes from commercial banks, who extend commercial loans and then feed those loans through into the CMBS market. Life insurance companies also have been known to participate in mortgage financing, but have traditionally been a small player due to the high amount of administration required, cumbersome capital allocation process, and small financing capacity. GGP's average interest rate is currently 5.46%, even though its senior debt ratings from Moody's and S&P are BB- and Ba2 – below investment grade.

GGP leases out space to retailers, who primarily pay GGP in the form of base minimum rent. The historical relationship between tenant sales and occupancy costs charged by GGP is shown below.

	Q1 08	2007	2006	2005	2004	2003
Trailing 12 month tenant sales	442.0	402.0	443.0	428.0	402.0	337.0
Occupancy Cost % of sales	12.8%	12.5%	12.6%	12.1%	12.5%	11.4%



There is some maintenance cost associated with existing mall properties. Based on an analysis of GGP and its primary mall competitors, it appears this maintenance cost is approximately $1.9 per square foot of 'GLA' (gross leasable area). While tenant contracts are typically long term (7 to 10 years), contracts can be broken at the cost of a lease termination fee, which tends to be around 2 years worth of rental income up front. For accounting purposes, this income is treated as revenue. Due to the lack of cost associated with such revenue, it is pure profit when generated, though non-recurring.

The trend towards rise in occupancy cost as % of sales is expected to strengthen off declining retail sales and consumer expenditure. The macro-economic factors clearly stand to point out that the situation is going to worsen from the present levels. Consumer credit and retail sales have softened due to decline in consumer spending. As US economy continues to slowdown, many retailers are expected to revisit their growth plans and curtail some of their existing operations forcing further lease terminations. Also as retailer's occupancy costs increase steadily as % of tenant sales, rentals could face downward pressure. GGP has witnessed higher lease terminations in the last quarter as manifested by increase in non-recurring termination fee income to $21.0 mn in 1Q2008 from $3.7 mn in 1Q2007, resulting in one- time non-recurring revenue for the company in 1Q2008 at the expense of future core operating earnings. As a result the company's average occupancy level has declined to 92.7% in 1Q2008 from 92.9% in 1Q2007. GGP's reported revenues from consolidated property increased 18.3% to $798.3 bn in 1Q2008. However revenues excluding Homart acquisition and lease termination fee increased by a marginal 0.3% to $682 mn. The rentals have already started to witness a sign of slowdown and an increase in lease terminations could imply lower rentals for the company going forward for the same property under a renewed lease agreement.

Item 1-There is very clear evidence that GGP is heading into a refinancing-induced *liquidity crunch*

Summary

At the end of Q1 2008, GGP had $2.6B and $3.3B of debt coming due in 2008 and 2009, respectively. The refinancing "progress" that it stated it had made in Q1 was almost entirely short term high rate debt coming due in November 2008, though they did not state as much. They also did not state that despite raising over $880M of equity capital in Q1 2008, their total debt maturities in 2008 and 2009 have actually gone up.

GGP has paid off its $492M revolver due in 2011 while it has $350M due in July 2008 which was still outstanding at the end of Q1 2008 – **this is highly suspect.** An unsecured lender reduced the principal owed by GGP by $172M, an action which is typically only taken in bankruptcy – also highly suspect. Finally, the magnitude of guarantees has risen materially over the past quarter, indicative of rising lender concerns.

The primary mechanism through which they have historically financed their operation, the CMBS market, is almost entirely shut down. Some of the biggest participants in the CMBS market have announced they are scaling away from the CMBS market, which does not bode well for their ability to fund themselves through the CMBS market in the future. Prudential, Wells Fargo, Morgan Stanley and Capmark Financial Group are examples of large institutions that are exiting or reducing their exposure to the CMBS market.

Life insurance companies, which GGP has mentioned recently as a potential source of replacement capital, have been called a "cumbersome" and highly difficult source of capital by major competitors. They are also the same companies that are now scaling away from the CMBS market, and are in the process of announcing large write-offs and capital raises of their own.

GGP has turned to up front lease termination income as a source of capital it seems, based on the highly abnormal rise in lease termination income the past few quarters. GGP is also now turning to loans from its JV subsidiaries. GGP has repeatedly stressed that it will not do a "fire sale" of assets, while healthy companies would never state as much.

Although GGP had closed its CMBS operations earlier, it is now seeking to explore CMBS deals (in addition to bank financing) which it believes would re-finance its existing debt maturities for the remainder of 2008 and nearly 30% of debt maturities of 2009. Although CMBS market is facing drying liquidity and being scaled away by other market participants in the light of high uncertainty in the current credit environment, GGP plans to raise between $1.5 bn and $3.0 bn through CMBS bonds. So far in 2008 (5 months of 2008), the entire CMBS market has witnessed only $10.9 bn of activity compared to CMBS issuance of $230 bn in 2007. To put this plainly, GGP is telling us that it plans on representing roughly 7% to 35% of the entire CMBS market in the refinancing of its debt. Looking at the CMBS market activity to date, **GGP's claim to raise between $1.5 bn-$3 bn remains highly suspect**. In addition to this, GGP is also negotiating a $1.75 bn term loan. With total maturities of $2.8 bn and $3.3 bn in 2008 and 2009, respectively, GGP will face some testing times ahead to re-finance its mammoth debt.

Further to the detriment of this companies financial position, GGP is also planning to raise funds by encumbering its existing unencumbered properties at a point of time when financial institutions have strengthened their standards for having lower LTVs on properties. Also the company is considering reducing its stake in joint ventures and using the proceeds to re-pay debt. Such actions under the current deteriorating capital market conditions might result in under realization of its investments, or to put it plainly the sacrificing of shareholder value by selling into an unfavorable market.

Wait and see approach of big lenders, probably Citigroup, only extending January 2008 maturities out to November 2008.

In a March 2008 press release, GGP stated that it had raised $1.3B, generating $658M of excess proceeds for GGP. However looking in detail at GGP's loan activities, it appears that the most important debt maturity in Q1 2008, $650M of debt on the Fashion Show mall, was merely extended 10 months to November 2008, and at a rate 180 basis points higher than its old interest rate no less. This is hardly a vote of confidence, and it does not remove the near term credit risk associated with such debt.

Similarly, $250M of new debt was raised on GGP's recent $290M initial payment on the Palazzo. Like the $650M of Fashion Show debt, this $250M is high cost debt which matures in November 2008. Thus, in November 2008 alone, GGP now has

$900M of debt which is coming due. This is probably the lender taking a wait and see approach – if conditions improve over the next few months, and the markets clear up, then maybe the lender will put his feet back in the water. If not, the lender will call his loans. If one has followed my comments on the banking sector via Reggie Middleton on the Asset Securitization Crisis, it is plain to see that the banks are fearing insolvency and would rather not take in additional real assets if they have to, but have few choices as customers are having severe solvency problems of their own, ala GGP.

	Amount		Maturity		Interest Rate		Fixed or Variable?	
Debt	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08
Fashion Show	359.0	650	1/1/2008	11/28/2008	3.88%	5.66%	Fixed	Variable
Palazzo	n/a	250	n/a	11/28/2008	n/a	5.80%	Fixed	Variable

This lists in detail all recent and upcoming debt maturities on consolidated and unconsolidated properties. It also lists other notable debt. It lends further credence to the view that lenders are taking a wait and see approach.

Only 2 consolidated malls, Provo Mall and Spokane Valley Mall, were successfully refinanced with more than their prior debt balance. One unconsolidated mall, Altamonte, was also successful in this regard. However these malls are very small relative to total debt coming due, and negligibly small relative to the Palazzo and Fashion Show data points above.

Wait and see approach of the senior bridge facility lender seems more like a desperation move on a failing investment than anything else.

GGP had a serious problem with their Senior Bridge Facility. In Q1 2008, after an $882M equity offering and presumably a concerted refinancing effort, GGP still had $522M due on the Senior Bridge Facility alone, coming due in July 2008. (Click to enlarge)According to GGP's Q1 2008 note on their Senior Bridge Facility, GGP was able to amend the terms on the bridge facility to reduce the principal from $522M to $350M, "substitute previously unsecured properties for the pledge within the collateral pool", and acquire the right to extend the maturity date for another 7 months, to January 31 2009. Why is this lender simply accepting a materially worse loan agreement at a time when GGP is obviously in a financing bind?

Whatever the case may be, this activity appears very peculiar, and is very much out of the ordinary – what lender reduces the principal on a very large loan? Typically, principal is lowered in distressed/workout/bankruptcy situations in which the lender is attempting to salvage what could be partial or total loss, not while the company is still very much alive, trading at a relatively high multiple off of its normalized free cash flow. Needless to say, reducing principal is something we see only at companies with very weak balance sheets, and supports the notion that GGP's balance sheet is in dire straits.

What we do know is that Citigroup appears to be entangled with GGP on multiple levels already – they loaned the Bucksbaum family $88M to buy stock in the recent equity offering, then removed the third party pledge on the Bucksbaums' shares as collateral. Whatever is prompting Citigroup to accept a weaker position there could be prompting Citigroup to accept a weaker position here – lowering the principal amount on a bridge facility by $172M, AND providing a debt extension of 7 months. My belief is Citigroup has a lot to lose, economically and reputationally, if GGP were to fall into bankruptcy. Citi was 1 of 2 companies who bought into the $1.5B convertible debt offering, and is probably earning large fees off of banking relationships and fees associated with GGP's debt issuances. Citi may own a substantial portion of GGP's secured loan portfolio, but this information is not readily available. Citigroup clearly would lose economically, and get bad press for being associated with another failed institution.

On November 9, 2004, MB Capital Partners III entered into a loan agreement with Citigroup Global Markets to provide credit facility of up to $500 mn. Although initially the loan agreement was to finance the exercise of warrants for financing the acquisition of The Rouse Company, it was subsequently amended to finance purchase of shares by MB Capital. On October 31, 2007, Citigroup extended the loan to MB Capital at a very nominal rate of interest of LIBOR plus 50 basis points suggesting the possibility that Citigroup might be helping MB Capital finance purchase of GGP's shares. In addition to abnormally low rate of interest being charged for the transaction, the loan agreement was amended subsequently terminating third party pledge of shares of common stock held by John Bucksbaum and Matthew Bucksbaum further raising concerns about the entire financing deal between Citigroup and MB Capital.

Another peculiarity is the lack of mention of this very important detail. GGP had $522M coming due in a mere 4 months, and was able to reduce that principal payment by $172M, but gave no mention to this fact in the conference call or press release. And no rationale for this was stated in the 10Q. This is a very material lack of disclosure which GGP needs to clear up.

Apparently, though GGP has not stated as much, their revolver got effectively pulled.

GGP had $429.2M drawn on its revolver as of Q4 2007. Even though the revolver expires in February 2011, GGP paid it down to $0 this Q for an unannounced reason (look to the bottom of this table for data on the revolver).

2008 Debt Maturity Update

	Amount		Maturity		Interest Rate		Fixed or Variable?		E(Mkt Value)		E(LTV)		Secured, Unsec'd.		Consolidated?	
Debt	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08	Q4 07	Q1 08
Fashion Show	**359.0**	**650**	**1/1/2008**	**11/28/2008**	**3.88%**	**5.66%**	**Fixed**	**Variable**	**1,204**		**30%**	**54%**	**Secured**	**Secured**	**Consol.**	**Consol.**
Palazzo	**n/a**	**250**	**n/a**	**11/28/2008**	**n/a**	**5.80%**	**Fixed**	**Variable**	**290**			**86%**	**Secured**	**Secured**	**Consol.**	**Consol.**
Provo Mall	34.5	41.25	2/1/2008	4/5/2012	4.52%	5.88%	Fixed	Fixed	101		34%	41%	Secured	Secured	Consol.	Consol.
Spokane Valley M	28.5	41.25	2/1/2008	4/5/2012	4.57%	5.87%	Fixed	Fixed	90		32%	46%	Secured	Secured	Consol.	Consol.
Phoenix Theatre	**0.5**	**0**	**4/1/2008**	**n/a**	**8.39%**	**n/a**	**Fixed**	**n/a**					**Secured**	**n/a**	**Consol.**	**n/a**
Two Owings Mills	**12.6**	**0**	**5/1/2008**	**n/a**	**4.27%**	**n/a**	**Fixed**	**n/a**					**Secured**	**n/a**	**Consol.**	**n/a**
Columbiana	66.1	65.7	5/12/2008	5/12/2008	4.27%	4.27%	Fixed	Fixed	112		59%	59%	Secured	Secured	Consol.	Consol.
Animas Valley	24.7	24.5	7/11/2008	7/11/2008	3.70%	3.70%	Fixed	Fixed	57		44%	43%	Secured	Secured	Consol.	Consol.
Grand Teton	26.5	26.3	7/11/2008	7/11/2008	3.69%	3.69%	Fixed	Fixed	80		33%	33%	Secured	Secured	Consol.	Consol.
Mayfair	181.3	180.2	7/11/2008	7/11/2008	3.17%	3.17%	Fixed	Fixed	332		55%	54%	Secured	Secured	Consol.	Consol.
Salem Center	25.6	25.4	7/11/2008	7/11/2008	3.69%	3.69%	Fixed	Fixed	54		47%	47%	Secured	Secured	Consol.	Consol.
Pioneer Place	166.6	165.9	8/1/2008	8/1/2008	6.76%	6.76%	Fixed	Fixed	243		68%	68%	Secured	Secured	Consol.	Consol.
Foothills	42.3	42.2	8/29/2008	8/29/2008	6.63%	6.63%	Fixed	Fixed	128		33%	33%	Secured	Secured	Consol.	Consol.
Northtown Mall	74.1	73.8	9/1/2008	9/1/2008	6.77%	6.77%	Fixed	Fixed	173		43%	43%	Secured	Secured	Consol.	Consol.
Chula Vista	60.2	59.9	10/1/2008	10/1/2008	4.24%	4.24%	Fixed	Fixed	88		68%	68%	Secured	Secured	Consol.	Consol.
Pierre Bossier	36.3	36.1	10/1/2008	10/1/2008	6.54%	6.54%	Fixed	Fixed	63		58%	58%	Secured	Secured	Consol.	Consol.
Spring Hill	79.7	79.3	10/1/2008	10/1/2008	6.61%	6.61%	Fixed	Fixed	176		45%	45%	Secured	Secured	Consol.	Consol.
Tucson Mall	120.6	120.0	10/13/2008	10/13/2008	4.35%	4.35%	Fixed	Fixed	247		49%	49%	Secured	Secured	Consol.	Consol.
Bayside	54.3	54.0	11/3/2008	11/3/2008	6.00%	6.00%	Fixed	Fixed	207		26%	26%	Secured	Secured	Consol.	Consol.
Southwest Plaza	74.5	74.1	11/3/2008	11/3/2008	6.54%	6.54%	Fixed	Fixed	187		40%	40%	Secured	Secured	Consol.	Consol.
Birchwood	39.2	38.9	11/11/2008	11/11/2008	6.72%	6.72%	Fixed	Fixed	85		46%	46%	Secured	Secured	Consol.	Consol.
Mall of the Bluffs	39.2	38.9	11/11/2008	11/11/2008	6.72%	6.72%	Fixed	Fixed	76		51%	51%	Secured	Secured	Consol.	Consol.
JP Realty Public No	**25.0**	**0**	**3/11/2008**	**n/a**	**7.29%**	**n/a**	**Fixed**	**n/a**					**Corp.**	**Corp.**	**Consol.**	**Consol.**
Mall St Matthews	0.1	0.1	5/1/2008	5/1/2008	9.03%	9.03%	Fixed	Fixed					Corp.	Corp.	Consol.	Consol.
Houston Land	6.9	7.0	5/5/2008	5/5/2008	4.82%	4.82%	Fixed	Fixed					Corp.	Corp.	Consol.	Consol.
Princeton Land	3.6	3.6	7/29/2008	7/29/2008	3.04%	3.04%	Fixed	Fixed					Corp.	Corp.	Consol.	Consol.
Princeton Land Ea	3.4	3.4	7/29/2008	7/29/2008	3.00%	3.00%	Fixed	Fixed					Corp.	Corp.	Consol.	Consol.
TRCLP Property No	58.0	58.0	11/30/2008	11/30/2008	6.94%	6.94%	Fixed	Fixed					Corp.	Corp.	Consol.	Consol.
Senior Bridge Loan	**722.2**	**522.2**	**7/6/2008**	**7/6/2008**	**6.26%**	**4.17%**	**Variable**	**Variable**					**Secured**	**Secured**	**Consol.**	**Consol.**
Quail Springs	39.5	39.3	6/2/2008	6/2/2008	6.98%		Fixed						Secured	Secured	Uncons.	Uncons.
Neshaminy	60.0	60.0	7/1/2008	7/1/2008	6.76%		Fixed						Secured	Secured	Uncons.	Uncons.
Woodlands Comm	1.9	1.9	7/25/2008	7/25/2008	4.81%		Fixed						Secured	Secured	Uncons.	Uncons.
Altamonte	**108.0**	**137.8**	**8/29/2008**	**2/1/2013**	**6.55%**	**5.14%**	**Fixed**	**Fixed**					**Secured**	**Secured**	**Uncons.**	**Uncons.**
Towson Town Cen	130.0	129.3	11/10/2008	11/10/2008	6.84%	6.84%	Fixed	Fixed					Secured	Secured	Uncons.	Uncons.
Revolver	**429.2**	**0**	**2/24/2011**	**n/a**	**6.60%**	**n/a**	**Variable**	**n/a**					**Unsecured**	**Unsecured**	**Consol.**	**Consol.**
Oakwood Center	**95.0**	**95**	**2/9/2009**	**2/9/2009**	**6.60%**	**5.05%**	**Fixed**	**Variable**					**Secured**	**Secured**	**Consol.**	**Consol.**

Given that the interest rate was a fairly reasonable 6.6%, the only logical rationale is that GGP had to – that it had effectively gotten pulled. Again, this is not a vote of confidence, and further constrains GGP's already strained balance sheet.

This further complicates the issue regarding the Senior Bridge Facility. Why would GGP pay down the revolver by $429M and leave the $522M Senior Bridge Facility untouched, when the revolver matures in 2011 and the Senior Bridge Facility matures in July 2008? There are clear red flags here which have not been explained, but have been given zero disclosure.

GGP in its last press release on March 21, 2008 related to financing activity had promised investors to provide an update of its major financing transactions as and when they occur. However, the company has not come out with any press release since then suggesting it has not negotiated any financing deals. As per the company's last press release, it had raised a debt of $1.3 bn towards properties which had existing debt of $0.6 bn thus generating excess proceeds of $0.7 bn to purchase The Shoppes at Palazzo, to make contributions to JV's, to repay existing debt and for general operating expense leaving the company to raise additional financing of $2.2 bn and $3.3 bn in 2008 and 2009, respectively.

It appears that someone got nervous enough to force GGP to post a lot of additional guarantees

This graph unambiguously implies that something happened in Q1 2008 which prompted counterparties with GGP to force additional collateral and guarantees to be posted. Exactly what has not been stated.

Below is a table which provides historical perspective:

	Q1 2008	2007	2006	2005	2004	2003	2002
LOC's + Surety Bonds	496.6	235.0	220.0	210.0	194.0	11.8	12.1
- Appellate Bond	(134.1)	0.0	0.0	0.0	0.0	0.0	0.0
= Non-Appellate LOC+SB's	362.5	235.0	220.0	210.0	194.0	11.8	12.1

GGP mentioned having to post an appellate bond of $134M in Q1 2008, which is basically the money they had to set aside because they lost a lawsuit which requires them to pay $90M. As a side note, they had to put up cash of $67M as collateral. Even when adjusting for the appellate bond though, we clearly see additional forces are at work which have prompted a 54% increase net of the appellate bond.

Once again, little disclosure. Reading between the lines though, it is clear that counterparties are tightening standards with GGP.

Recommend this article...

For all that GGP has said it has done, there is MORE debt due in 2008 this quarter than there was last quarter.

At the end of Q4 2007, GGP had $2.6B of debt maturing in 2008. At the end of Q1 2008, GGP had $2.8B due. Debt due in 2009 was $3.3B at the end of Q4 2007 and Q1 2008. Even though GGP spoke highly of the progress it has made on the refinancing front, and even though it raised $821 in equity capital in the Q, there was literally negative progress during Q1 2008.

This table allows us to see the evolution of debt due in 2007, 2008 and 2009. It also allows us to compare how the debt due in the following 2 years considerably more difficult now than it was a year ago:

	Q1 08	Q4 07	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06
Due 2007	0	0	963	1105	1,174	1,208	1,250
Due 2008	2,767	2,622	2816	2,067	2,100	2,117	2,130
Due 2009	3,335	3,344	3,540	3,403	3,514	3,525	3,424

This link extends these figures backwards to Q3 2005, and further substantiates these views (numbers above have been adjusted as reported by GGP, the numbers below are from a 3rd party and are unsubstantiated – but then again so are the reported numbers!).

GGP has since then stated that it raised $325M in mortgage refinancing. This leaves a lot of short term debt still on the table, primarily due to the large amount of debt which was extended to November 2008.

GGP was funneled $64M in “loans” from unconsolidated affiliates this Q, and now has $164M of “retained debt” which is in excess of GGP’s pro rata share, but doesn’t show up on GGP’s balance sheet.

GGP is liable for $163M of debt in its unconsolidated affiliates in excess of GGP’s pro rata share through the normal course of business. This debt is labeled "Retained Debt" and is indeed real debt for GGP, but is instead recorded on GGP's balance sheet as a reduction in the net carrying value of the unconsolidated affiliates. Thus, the balance sheet under-represents the debt that GGP has.

As stated in GGP’s Q1 2008 10Q:

'In certain circumstances, we have debt obligations in excess of our pro rata share of the debt of our Unconsolidated Real Estate Affiliates ("Retained Debt"). This Retained Debt represents distributed debt proceeds of the Unconsolidated Real Estate Affiliates in excess of our pro rata share of the non-recourse mortgage indebtedness of such Unconsolidated Real Estate Affiliates. The proceeds of the Retained Debt which are distributed to us are included as a reduction in our investment in Unconsolidated Real Estate Affiliates. In the event that the Unconsolidated Real Estate Affiliates do not generate sufficient cash flow to pay debt service, by agreement with our partners, our distributions may be reduced or we may be required to contribute funds in an amount equal to the debt service on Retained Debt. Such Retained Debt totaled $162.7 million as of March 31, 2008 and $163.3 million as of December 31, 2007, and has been reflected as a reduction in our investment in Unconsolidated Real Estate Affiliates.'

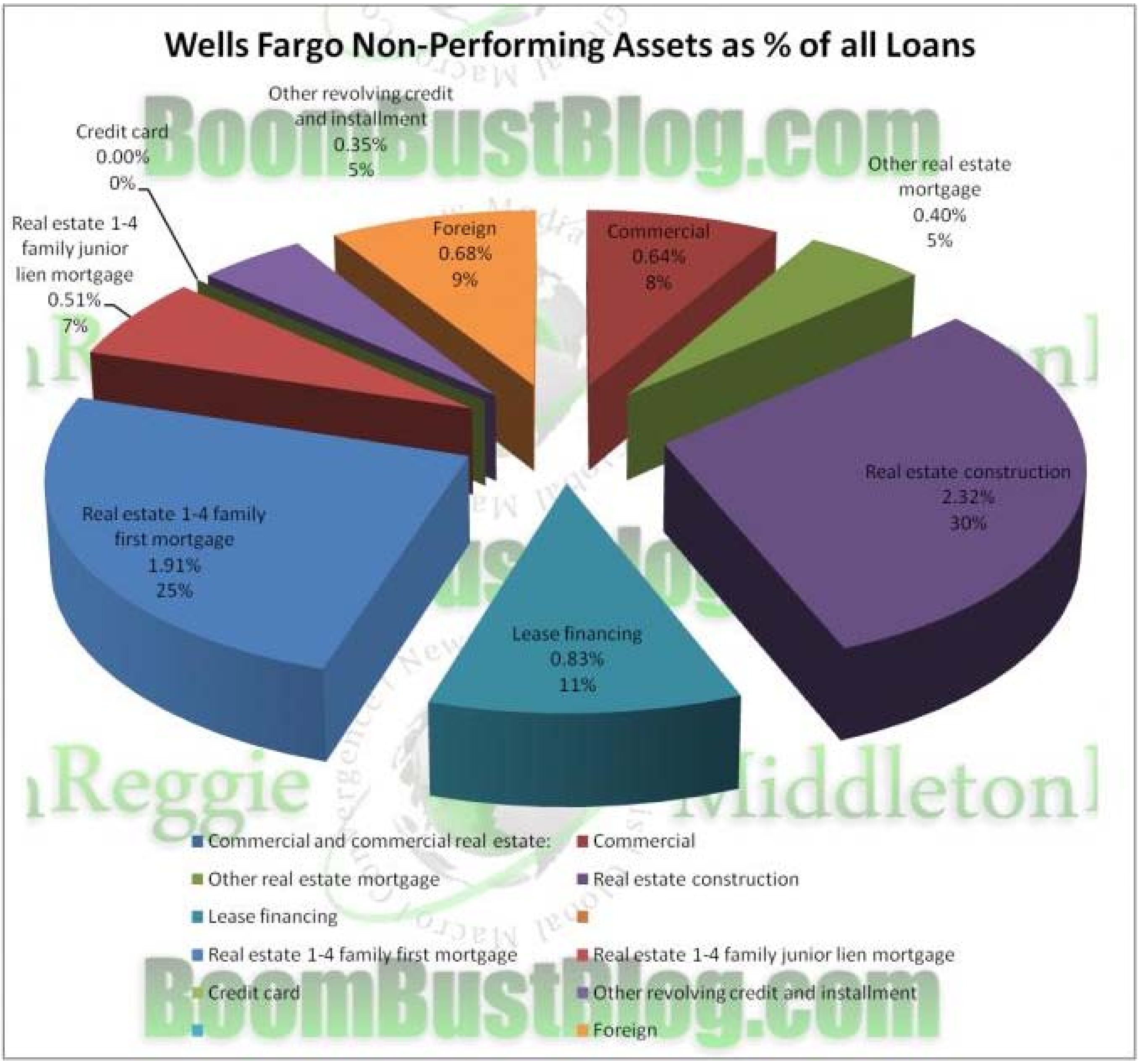
Somehow, Retained Debt remained flat in Q1 2008 while GGP received $64.4M in loans from its subsidiaries in this Q alone. Whatever the case may be, GGP is receiving liquidity from its own subsidiaries, which is not something a healthy company would do.

Cutting its development expenditures but already very fully exposed to construction loans risk.

GGP cut its future development expenditures by $600M – a very considerable sum of money – and will be spending a revised $1.5B through 2012. GGP is now trying to conserve as much cash as it can.

As a result of likely difficulties in meeting its re-financing needs, we expect GGP to slowdown on its capital expenditure towards maintenance and development activities which could result in loss of future expected revenue stream. This is serious in view of the fact that future revenue stream is being sacrificed due to current liquidity problem the company is facing. And this is only going to prolong the recovery process for the company, if one is to sound a little optimistic under the current scenario.

GGP has $1.35B in loans for numerous projects in development right now. Bernie Freibaum says *"we currently anticipate that during the fourth quarter of this year, and continuing into the beginning of 2009, we will obtain construction financing."* However it has been made abundantly clear in the press and by the FDIC that construction loans will come under heavy pressure as commercial banks scale away from this lending. If that doesn't convince you, then just remember that Reggie Middleton sounded the alarm on construction lending. Here's a few snippets from the Asset Securitization Series on my blog .



Large exposure in Construction and Development (C&D) loans: Of its total loans of $386 bn, Wells Fargo (WFC) had $19 bn exposure in construction and development loans in 1Q2008. WFC's exposure was the fourth largest among all US banks in absolute amount after Bank of America, Wachovia and BB&T, comprising nearly 36% of its shareholder's equity (this is unadjusted for bullsh1t). In 1Q2008, C&D loans witnessed the highest stress with NPA to loan ratio of 2.32%, followed by real estate 1-4 family first mortgage with NPAs to loan ratio of 1.91%. C&D NPAs (Non-performing or dead assets) witnessed a 114% increase over 1Q2007 and 38% increase over 4Q2007. In Wells Fargo loan portfolio, as of December 31, 2007 California represented nearly 32% of total C&D loans, Florida represents 5%. These areas are experiencing extreme stress due to thier high (the highest in the country) residential delinquency, foreclosure and REO rates.

We can compare WFC to Popular Bank:

	Wells Fargo WFC US Equity	Popular Inc BPOP US Equity
(3Q-2007)		
Home Equity Loans	83,860	
Construction and devlopment loans	17,228	1,996

These high risk loans are present, though

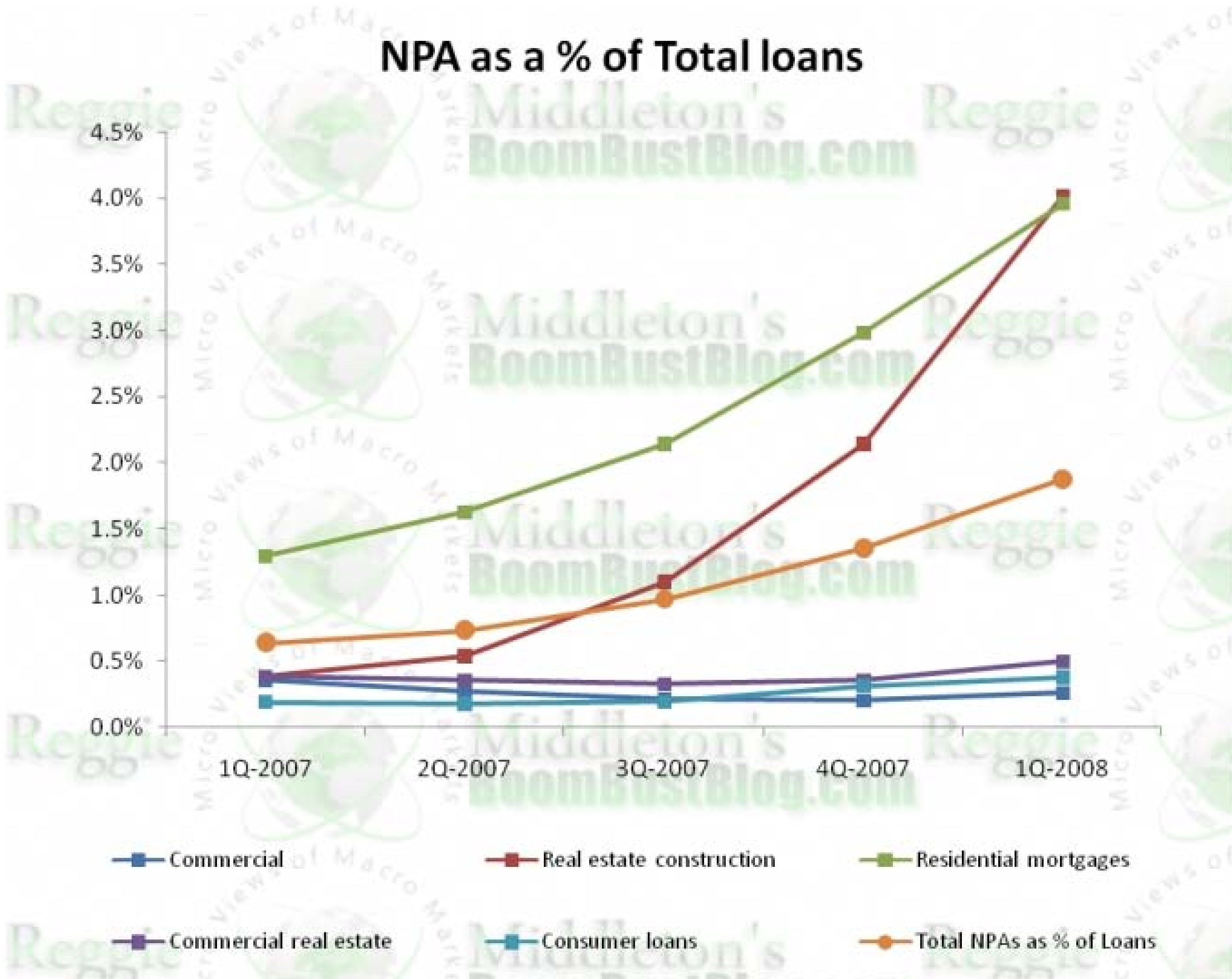
Commercial Real Estate Loans	29,310	5,939	The same for these
Total Loans ($ mn)	**393,632**	**33,321**	
% of Total Loans			
Home Equity Loans	*21%*		
Construction and devlopment loans	*4%*	*6%*	Small capital base, less cushion for loss
Commercial Real Estate Loans	*7%*	*18%*	This concentration could be problem
% of Shareholders' equity *(based on 3Q Loans)*			
Home Equity Loans	*178%*	*49%*	This is potentially a big problem
Construction and devlopment loans	*36%*	*56%*	This is potentially a big problem
Commercial Real Estate Loans	*62%*	*166%*	This is potential problem, high concentration
Total Loans	*826%*	*930%*	Popular has nearly 10x its equity in loans, 270% of which is extremely risky in one of the worst down-markets this country has ever seen.
Core Capital ratio / Tier 1 risk-based capital	7.6	10.1	This ration is not that bad
Total risk-based capital ratio	10.7	11.4	Neither is this, could be worse
Leverage ratio	6.8	7.3	
NPA -to- Total Loan	*1.01%*	*3.04%*	This is very bad!
NPA / Shareholder's equity	*8.1%*	*23.8%*	This is even worse! Nearly a quarter of shareholder equity is dead weight and worth zilch! Adjust for tangible equity and this number goes higher.
Net Chare-off's / Loans	*0.93%*	*1.51%*	This is pretty high for all loans!
Net Charge offs / Shareholder's Equity	*7.43%*	*11.81%*	Shareholders should revolt!
Provision for loans to Total Loans	*1.41%*	*1.87%*	
Reerve for loans to Total Loans	*1.39%*	*1.96%*	
Cushion for losses	***0.38%***	***-1.08%***	***Take note, there is a negative cushion for losses here. This bank will probably announce the need for capital very soon!***

Recommend this article...

This is the nitty gritty on Sun Trust Bank:

Increasing NPAs and charge-offs are on a very strong uptrend in just the one past year, one that cannot and should not be ignored:

STI's nonperforming assets (NPAs) as a percent of loans have been increasing consistently over the last few quarters, having gone up to 1.88% in 1Q08 from 0.64% in 1Q07 - **considerable 294% increase**.



Non-performing loans in real estate construction category have recorded the most significant upward movement from 0.39% of total real estate construction loans in 1Q07 to 4.01% in 1Q08 - a **NIGH UNBELIEVEABLE 1,028% increase**!

Basically, every regional lender with significant exposre to C&D thoroughly regrets it. Banks such as Corus look even worse. This segment went into OVERKILL mode to communicate the point that the aforementioned statement rings false. Let's replay it for the sake of effect: GGP has $1.35B in loans for numerous projects in development right now. Bernie Freibaum says *"we currently anticipate that during the fourth quarter of this year, and continuing into the beginning of 2009, we will obtain construction financing."*

Exactly who will they be getting these construction loans from????!!!

The head of the OCC and the FDIC have both basically said there will be rising failures in the industry. Says Dugan, the head of the OCC: "There will be more frequent interaction between supervisors and banks with concentrations in CRE loans that are declining in quality," he said. "There will be more criticized assets; increases to loan loss reserves; and more problem banks. And yes, there will be an increase in bank failures (link)." He has also said that US bank failures could rise above "historical norms" due to a weakening economy and poorly underwritten loans. Sheila Bair, the Chairwomen of the FDIC, says these construction and development ('C&D') loans are "one of the chief risks to the banking industry" (link). Commercial real estate ('CRE') loans have risen rapidly as a percentage of bank Tier 1 capital, especially for mid-sized banks. Dugan himself states some of the more startling loan exposure statistics –

Over 33% of community banks have CRE concentrations exceeding 300%+ of capital.

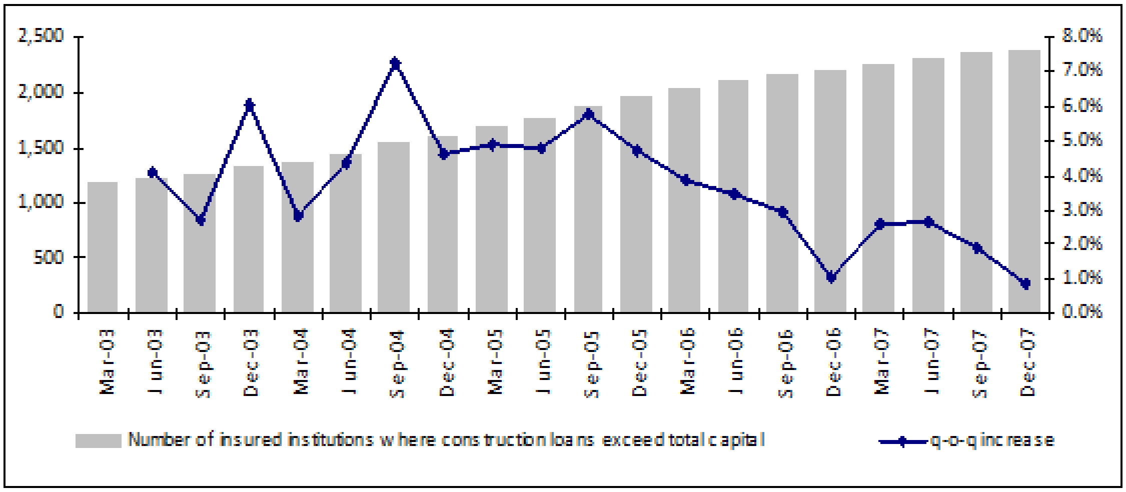
More than 60% of Florida banks have CRE exposure exceeding 300% of capital.

50% of Florida banks have C&D loans alone which are over 100% of their capital.

Even David Simon, CEO of Simon Property Group, has said "there are a lot of broken projects out there," and that "the floodgates … are just going to begin to open… we're going to end up dealing with the construction lender."

According to Taubman Centers, these commercial banks have been the primary source of funding for mall REIT's. Taubman is glad that they don't have to tap the market at this time because it is almost completely frozen.

According to the FDIC, the number of insured institutions where construction loans exceed total capital has more than doubled from 1,179 in 1Q 03 to 2,368 in 4Q 07. This indicates that financial institutions have relied on external finance to achieve the level of growth in lending, which multiplied the concerns at the time of the crisis.



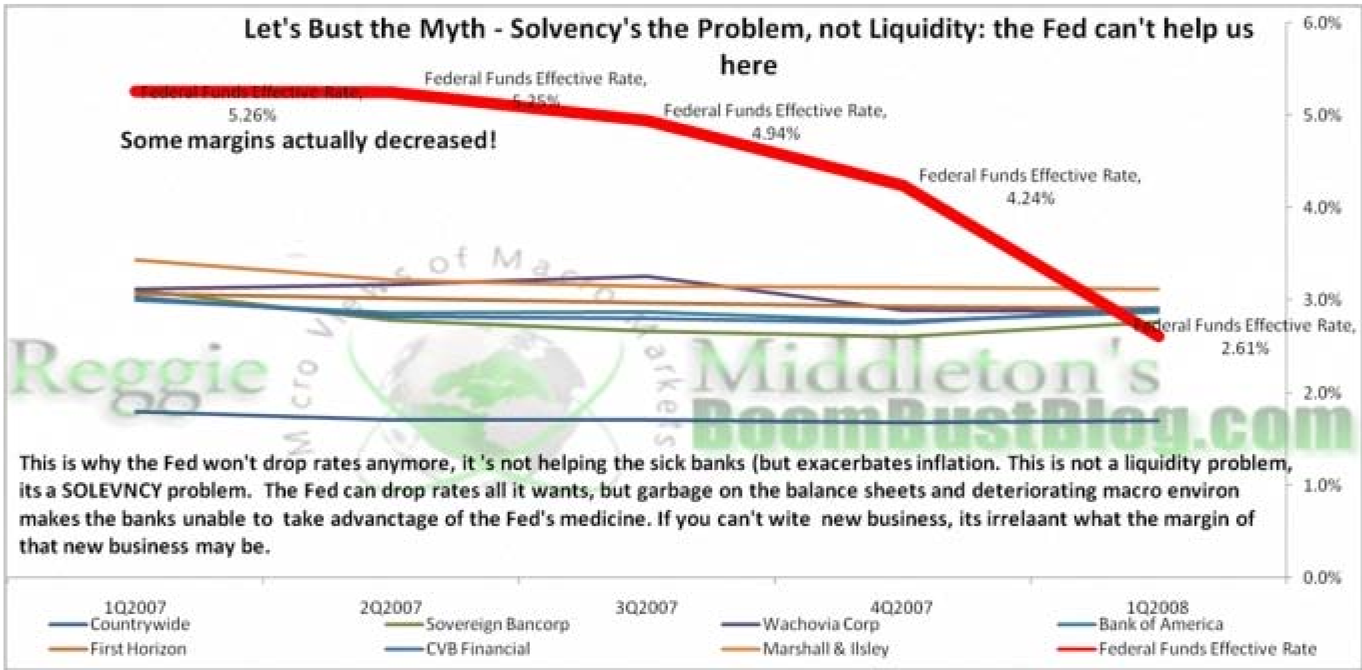
Source: FDIC

Increased loan charge-off and rising NPAs of commercial losses is indicating at increasing squeezing liquidity conditions in the credit market. The problem appears to only aggravate from the present level given that even consumer and construction loans, once considered to be untouchable by subprime and financial crisis, have been confirmed to come under the scanner of current financial market turmoil. Many commercial banks, which have not witnessed increases in their net interest margin over the last few months of declining Fed interest rate, could face testing times if Fed decides to raise interest rate to combat inflation. Insolvency could become a real scenario for banks facing declining asset value and rising charge-offs on their loans.

Bernanke comes to the rescue that doesn't, and it bodes ill for C&D banks, and even worse for GGP!

Federal Reserve chairman Ben Bernanke has spearheaded the most aggressive rate cutting and monetary policy action in the history of this country. He has reduced the effective federal funds rate by nearly 50% in just 5 calendar quarters, from an already relatively low 5.3% to 2.6%.

History's most aggressive rate cutting does nothing to help sick banks. As a matter of fact, some of the banks got sicker after the rate cuts. *Click any graph to enlarge to a full page, print quality presentation.*



The primary reason why the Fed's lowering of the interest rates is not helping the banks is because monetary stimulus via discount windows and low interest rates can solve liquidity issues, which the banks have - but the banks liquidity issues stem from **INSOLVENCY**, and illiquidity. Thus, all the Fed is doing is taking a pricey, risky (inflation and weakening currency that pisses off our trading partners) and volatile band aid and applying it to deep and gushing wound. Those band aids with the pretty colors do indeed tend to make Mama's baby's little boo-boo feel better, but from a scientific perspective do very little in regards to addressing deep puncture wounds. Hopefully, the message has been conveyed that there are no intelligent bankers currently giving C&D loans at a level that will satisfy GGP's needs. **If banks are insolvent, and GGP is overleveraged and choking on debt coming due, who will come to the aid of GGP?!**

Recommend this article...

Generating all the cash it can from lease termination income.

Lease termination has been accelerating rapidly the past 3 quarters in a row. This table details the evolution of lease termination income. Note that back in 2006 there was 1 quarter which matched the current high level of LTI. Back then, GGP was proud that they were boosting income and churning the portfolio. Now, we have seen 3 consecutive quarters of increasing LTI, with no commentary until Q1 2008.

Details	Q1 08	Q4 07	Q3 07	Q2 07	Q1 07	Q4 06	Q3 06	Q2 06	Q1 06	2007	2006	2005
Lease Term. Inc.	**21.0**	**17.2**	**10.9**	3.5	3.7	3.8	3.0	2.0	22.4	35.3	31.2	10.8
Revenues	988.9	1,075.5	1,015.3	920.8	894.0	1,165.2	909.0	875.6	993.1	3,905.6	3,943.1	3,711.4
% of Sales	**2.1%**	**1.6%**	**1.1%**	0.4%	0.4%	0.3%	0.3%	0.2%	2.3%	0.9%	0.8%	0.3%
% Growth	**462.1%**	**357.4%**	**264.8%**	72.1%	-83.3%					13.2%	188.9%	

In Q1 2008, LTI was $21M, up 462%. In Q4 2007 it was $17.2M, up 360%. In Q3 2007 it was $10.9M, up 265%. All figures are healthily larger than the comparable fees at TCO and at SPG. Moreover, fees went down for TCO and SPG in Q1 2008 while they went dramatically up for GGP. If GGP did indeed have a liquidity crunch on its mind, it would make sense for GGP to push as hard as it could on lease termination income, because these fees are large up-front payments that typically represent 2 years worth of rent.

While lease termination income could contribute to ease liquidity problems for GGP in the short-term, it would also mean lower recurring rental income in the future. Further, new lease arrangements, which are most likely to be entered at lower rentals amid declining consumer spending and lower retail sales, would only lead to decelerating rental income growth which is its core income and primary value driver (read lower equity valuations). Put simply, GGP is robbing Paul to pay Peter.

Peculiar repetition from the CFO about GGP's "not doing a fire sale."

Bernie Freibaum has now stated 3 times that GGP will not do the equivalent of a fire sale. In the Q1 2008 conference call he said: *"There is no fire sale being conducted, there is no need to do a fire sale."* In a recent interview in the Wall Street Journal, he said *"there are no distress sales going on"* when referencing a potential de-leveraging deal. However, why would GGP specifically state that it is not doing a fire sale if it truly had no fears about a fire sale? Here are my team's analyses of GGP in an asset sale scenario and foreclosure scenario:

- GGP: Foreclosure vs Asset Sale
- GGP Refinancing Sensitvity Analysis
- GGP part 7 - Share value under the foreclosure analysis
- GGP part 8 - The Final Anaysis: fire sale of prime properties

This talk of fire sales and distress sales follows on the heels of a press release put out by GGP on Saturday January 19th 2008 at 9:19pm titled "General Growth Responds to Recent Statements in the Press and Blogs", in which GGP states: *"The Company is absolutely not in any danger of having to contemplate a bankruptcy filing, and the Company unequivocally has no intention of doing so."* A company which is in a healthy financial condition would not say something like this.

The press mentioned in the late night weekend release referred to the journalist Hank Greenberg and the blog reference was aimed at the most handsome, the most knowledgeable, yours truly:

- My Response to the GGP Press Release, which seems to respond to blogs...
- For those who were wondering what sparked that silly press release from GGP...

GGP's specific use of the phrase 'fire sale' is interesting. On April 7th 2008, Centro Property Group was mentioned a similar phrase in a Wall Street Journal article: *"At least five suitors have submitted preliminary bids to purchase the entirety of Centro Properties Group, but the cash-strapped retail-property concern isn't resigned to selling itself at a fire-sale price, according to people familiar with the situation."* This does not put GGP in good company.

The CMBS market, GGP's primary source of capital, has completely shut down.

Much has been written about the complete shut-down of the CMBS market. This provides a summary of some of the many market participants that have reduced their CMBS exposure (including companies that have been featured in here, particularly Wells Fargo and the Street's Riskiest Bank - both of which I stated have outsized CRE exposure). Prudential has stated that they have left the conduit-related CMBS business. Wells Fargo suspended originating commercial real estate loans for securitization until the market improves. Morgan Stanley has been actively reducing its CMBS and commercial real estate exposure. As this WSJ article notes, the inability of commercial banks to sell into the CMBS market at a reasonable price has forced the banks to simply hold these loans on their books.

Problems in the CMBS market have been deeply aggravated over the past 4-5 months. Although the company has announced its plan to fund its debt refinancing needs from CMBS issuances, one can only raise more doubts than gather assurance over the plan.

GGP's focusing on life insurance companies, which, according to TCO, are not a capital source you want to be relying on.

Taubman Centers, a competitor to GGP, has called life insurance companies a cumbersome source of capital with fixed capacities for real estate deals. It has also been said that anything north of $100M is simply too large for life insurance companies. In these market conditions, it may be a little bit of a stretch to expect life insurance companies to expand their allocation to real estate, implying GGP would have to muscle its way into the market by grabbing market share.

AIG on May 8th 2008 announced that it would take an $8B writedown and do a $12B capital raise. They are clearly not on sound financial footing, so are we to expect them to dramatically increase their activity in CRE?

Again, Prudential Financial is exiting the conduit-related CMBS market – they are moving away from the market, not towards it. Wells Fargo suspended originating CRE loans for securitization. Merrill sold its CRE lending business. Morgan Stanley is actively reducing its CMBS and CRE exposures, with Lehman facing a near run on the bank and Bear Stearns has already collapsed! The funding environment is evaporating - quickly!

GGP co-invested $88M using money borrowed from Citigroup, potentially to compel others to participate in an $880M equity offering.

While the mechanics and legality behind this transaction are discussed in further length later in this analysis, this act is peculiar purely from a fundamental business standpoint. It is often the case that executives co-participate in offerings to signal confidence in the stock at the time of the offering. That being said, why would GGP's management term borrow $88M, from Citigroup in relatively short term debt no less, to co-participate in a rights offering?

On March 24, 2008 GGP announced the sale of 22.9 mn shares at $36 per share with total proceeds of $821.9 mn to repay its revolving credit facility and other debt, and for general corporate purposes. The above offer which was closed on March 28, 2008 included sale of 2.4 mn shares sold for total proceeds of $88 mn to MB Capital Partners III, an affiliate of and John Bucksbaum, CEO of GGP, and Matthew Bucksbaum, the company's Chairman Emeritus. Using the credit facility provided by Citigroup, MB Capital had purchased 10.09 mn GGP shares in open market between August 3, 2007 and August 20, 2007. Subsequently in March 2008, MB Capital used the loan to finance the purchase of $88 mn worth of GGP shares, bringing into serious questioning the motives of Citi group's financing of the share purchase agreement.

GGP's operations were not self funding in Q1 2008.

GGP generated FFO of $223M. It spent $151M on dividends, and another $88M on maintenance capital expenditures. Reversing out $16M of excess lease termination income and we are left with negative $32M. It is only fair to reverse out $3M of excess bad debt expense relative to historical averages in 2005 and 2006, which puts GGP's normalized cash outflow at $35M per quarter right now, without any further possible deterioration in operating fundamentals or interest rates.

It is also apparent that GGP will have a run on its income orientated investors, for GGP Can't Afford its Dividend**! The divident is currently being financed, and cannot be paid out of insufficient operating capital.**

Item 2 - One-time items are holding up deteriorating core operational performance.

Summary

From a number of standpoints, it appears clear that GGP's core operations are deteriorating.

The Rouse Company, which GGP acquired in 2004, is far less profitable than it was last year at the operating level. Occupancy costs as a percentage of its tenants' trailing twelve months sales are trending upwards, which will increasingly exert downward pressure on rates. Lease termination income, peculiar land assessments and fluctuations in bad debt expense artificially propped up profitability in Q1 2008, but FFO growth will slow to 0% in Q2 2008. This does not bode well for the future. Finally, the business model of shopping malls is getting attacked on multiple fronts.

The Rouse Company, which tripled GGP's size in 2004, is far less profitable than it was last year at the operating level.

At the end of the Q1 2008 10Q, GGP provides the performance of The Rouse Company ('TRC'). As we can see, revenue decreased from $354M to $348M. Operating income was slightly up, from $102M to $120M, but because the operation is not self funding (like GGP as a whole), TRC was forced to borrow more. Total debt in this Q alone rose from $9.5B to $9.7B, prompting interest expense to rise from $108M to $124M. As a result, net income dropped from $295M to a mere $5M.

REIT investors may scoff at actually reading the balance sheet and income statement, but even adjusting for D&A, this was still awful performance. Net income plus D&A plummeted from $394M in Q1 2007 to $91M in Q1 2008.

This is the asset that tripled the size of the company in 2004? What is especially peculiar is that this entity has total assets of $15.9B and total revenues in the Q of $348M, while GGP as a whole has total assets of $29.5B and total revenues in the Q of $830M. TRC, then, is responsible for 54% of GGP's assets, but 42% of its revenues. This is clearly a textbook example of investors binging during an asset bubble on cheap and easily available credit, only to find they grossly overpaid and made a strategic mis-step.

Artificial benefits from land value assessments, lease termination income and bad debt expense.

It just so happens that lease termination income was up $17M year on year, bad debt expense was down $3M year on year, and the value of GGP's land was revised upwards by approximately $21M in the quarter. All helped boost GGP's stated financial performance in the Q, but were extraordinary in nature.

The peculiar upward revision of the value of GGP's land position, which includes a heavy chunk of business in Las Vegas, was cited in the Q1 2008 conference call. This explanation does not appear to be particularly convincing, given its heavy reliance on "long term projections", even if they are at the expense of the current weakening operating environment.

'***Michael Gorman - Credit Suisse***

Thank you. Bernie, actually, I had a question on the NPC business. Could you just walk me through some of the adjustments in the estimated value of the assets there? I guess I was a little bit surprised to see it go up given the impairment charge that you took at Columbia last year. Can you just talk about, was that entirely offset by Texas? What is your view on Vegas at this point? Was that flattened evaluation? And I guess where are the numbers are going there?

Bernard Freibaum - Executive Vice President and Chief Financial Officer

*The valuation of land that's being developed over 30 years is very different process than valuing unsold homes for example, if you're a builder or even lots owned by a builder who has obviously got them in inventory. So the valuation process involves a **long-term** cash flow **model with numerous assumptions (think level III accounting for REITs)**, and this is what we use both for this annual evaluation as well as a re-valuation and effect every quarter to determine how much of our cost is attributable to land that it sold for booking profit. We did have a write down in Columbia and Fairwood fairly significant one but the total holdings there and the book value attributable to that land is low. So, the land in Vegas and Houston did make up for the reduction in the value of Columbia and Fairwood. Houston, the Woodlands and Bridgeland are two of the best projects in the city… And, the way the model works, if you do a 20 or 30 year long-term projection and you consider the net price of value of all that activity, you get a number and despite the soft current environment for housing including in Summerlin because builders have excess inventory."*

Reggie's take: This is Bullsh1t, to the sh1tieth degree! I am flabbergasted that no analysts took them to term on this. I guess I will have to attend the next conference call in person! Think about this... You buy up a bumch of property in the desert at record prices that was dirt cheap (no pun intended!) just last decade, then as the market totally collapses you decide to use long term forecasting and subjective assumptions in an attempt to wring "theoretical" value out of "real" land losses. Tell, me, why can't the home builders do this with their rental, condo and community properties? All they need to do is say they are going to sit on it long enough and hope the market turns around hard enough and long enough to recoup their losses. The banks have tried this with their MBS and CDOs, and it just didn't work. Land is a lot less complex than theoretical math model based CDOs and derivatives, hence the bullsh1t should be easier to smell.

Occupancy is trending downwards, while comparable sales were almost flat.

For the first time in at least the last 4 quarters, year on year occupancy decreased while tenant sales have remained flat. As a result, occupancy cost ascended as a % of sales to the highest levels GGP has ever recorded, at 12.8%. This table provides historical context:

	Q1 08	2007	2006	2005	2004	2003
Occupancy Cost % of sales	12.8%	12.5%	12.6%	12.1%	12.5%	11.4%

The outlook on retail sales for the remainder of 2008 does not appear to be good as we are heading into a recession, if not already in one. This does not bode well for GGP's ability to raise rents further, or even hold them steady for there is already tangible evidence of weakening rents in both the stronger and weaker markets.

FFO growth will slow to 0% in Q2 2008.

GGP has stated that they expect Q2 2008 FFO to be flat relative to Q2 2007. As Bernie Freibum stated: '*Please note that in the first quarter of 2008, we produced $0.11 of the total estimated range of $0.55 to $0.61 of full-year 2008 core FFO per share improvement. Due to timing differences, we currently expect a flat second quarter.*' Bernie doesn't elaborate into what these timing differences actually are, leading me to believe that this flat sales performance is not extraordinary in nature. This lends further support to the one-time nature of the growth that we saw in Q1 2008, and is not reflective of core fundamental strength.

Mall REITs are pulling back on development plans

As stated in recent articles, the long lead time involved in the construction of malls has created a large amount of supply which will be hitting the market in 2008. This may prove to be untimely, and does not bode well for absorption of the space.

At the same time, executives at some major mall REITs have become markedly more cautious in their guidance and outlook. At a recent conference, the CEO of Glimcher Realty Trust was quoted saying "I'm not afraid for '08 [results], ... Where you get nervous is thinking about '09. Retailers are clearly opening fewer stores, and they're being more aggressive" in negotiations with landlords.

Current economic realities will challenge the shopping mall business model

Consumer spending in shopping malls has a few pre-requisites:

1. It often requires individuals to drive long distances for the sole purpose of going to the mall
2. It requires discretionary income, given how large apparel sales are as a percentage of total mall sales
3. It requires consumers to pay a premium for the mall experience and the enclosure itself, as goods in shopping malls command a premium to comparable goods that can be purchased through other distribution channels
4. It is predicated on retailers being able to source their goods, often manufactured overseas in countries like China, cheaply

This business model is coming under attack on multiple fronts.

1. The high price of gas makes it a lot more expensive to take that trip to the mall, especially if the sole original purpose was mall shopping
2. Discretionary income is getting hit on multiple fronts – labor wages aren't keeping up with inflation in the price of necessity goods, unemployment as defined by total hours worked is on the decline, the financial system is in the process of de-levering itself and tightening its ability to fund consumer borrowing
3. Consumers may have been more willing to pay a premium for the mall experience when times where good, but that proclivity is attenuating as discretionary income shrinks
4. Weakness of the dollar relative to our major trade partners, and inflation in the cost of goods for our trade partners, is causing the price of the goods they export to the US to rise

On top of this, as noted above, the un-levered returns associated with mall properties is such that large amounts of leverage are required for a reasonable return on equity. As the CMBS market has shut down and credit tightens, the ability to tap the debt markets also lessens.

On multiple fronts, the shopping mall business model is coming under attack.

Item 3 - Evidence that GGP is misrepresenting itself and breaking securities laws

The analysis below supports the conclusion that GGP may have misrepresented itself.

Abstract

General Growth Properties ('GGP'), the 2nd largest mall REIT in the United States, appears to have withheld very material, necessary financial information from the public while engaging in a number of peculiar or financially aggressive transactions. This apparent lack of disclosure is in direct contravention to conservative securities practices, to say the least

and there may even be even serious violations which have been masked by non-disclosure. The incentive structure in its current state encourages risky behavior.

As an outsider, one can not know for sure, but it is plausible to assumet that the primary goal behind the alleged non-disclosure and financial aggressiveness is to inspire artificial confidence within the capital markets, to aid their capital raising needs over the next 2 years. GGP has been the subject of 4 prior SEC comments[1], so this would not be the first time GGP has been questioned over its accounting disclosures.

The primary questionable or aggressive financial actions are as follows:

(1) **Beginning in August 2007, the family which founded and has run GGP started borrowing heavily against tax-advantaged family trusts with non-recourse debt from Citigroup Global Markets (CGM) to directly purchase GGP stock**. As of March 2008, total borrowings by the family trusts in question amount to $588 million, implying a debt to capitalization of approximately 22% at current non-distressed price levels. This very aggressive behavior has been a red flag in the past – precedents include WorldCom, Global Crossing, Safeguard Scientific, Benton Oil and Stamps.com[2]. The founder, the Chairman, the CEO, and the 20% majority owner of GGP all originate from this one family, which makes this leverage all the more troubling due to its high level of concentration.

GGP had 266.8 mn shares outstanding as of March 28, 2008. Of this the three trusts, GTC, MB Capital Partners III and MB Capital Units, together hold nearly 26.8 mn shares taking their aggregate voting rights to 10% of outstanding shares. In aggregate Bucksbaum Family along with its trust own 12.1% of GGP's common stock. In addition, above trusts collectively own 45.2 mn units fully convertible units for one-for-one basis taking their aggregate potential voting rights to 24.8%.

(2) **Matthew Bucksbaum ('MB') – GGP's Chairman Emeritus, founder and ex-CEO – appears to have legally distanced himself from this financial arrangement**. He divided the trusts which name him as the President or Trustee from all other trusts when GGP borrowed its first $500 million to buy GGP stock in August 2007. He stepped down from the Chairman position 2 weeks later. In March 2008, when MBCP borrowed an additional $88 million to buy more GGP stock in an equity offering, he pulled these entities directly associated with him completely out of the trust structure doing the borrowing on a one-for-one basis. It is unclear why he would distance himself in this fashion, and appears to be a red flag.

(3) **CGM appears to be engaging in non-arms length transactions with GGP**. The original $500 million loan that CGM extended to GGP in August 2007 was at an interest rate of LIBOR plus 50 basis points, which itself seems cheap given the debt to capitalization, the lack of diversification of the underlying portfolio, and the lack of collateral. The terms got substantially laxer when MBCP borrowed an additional $88 million 7 months later. Given the higher risk associated with the additional loans in addition to the extreme financial straits that Citibank itself is in, it is very peculiar that CGM would materially ease the lending terms, implying there are undisclosed complicating factors.

The primary material items which have not been disclosed are as follows:

.) **Omitted loan agreement in their April 1st 2008 13D/A, which was supposed to be filed as an exhibit.** GGP states in the 13D/A itself that it will include the revised Loan Agreement as an exhibit. That exhibit was not included in their filing with the SEC. Without this information, public shareholders are left in the dark on a transaction with has materially diluted their residual claim on GGP's cash flow.

!) **Very opaque information regarding the counterparties that bought 6.9% of the diluted shares outstanding in an equity offering completed in March 2008.** It is extremely unusual for a company to be so opaque regarding participants in an equity offering, which leads one to question why they have chosen the path of non-disclosure.

3) **In GGP's press release over the March 2008 equity financing, GGP's CEO emphasized his co-participation in the offering but did not disclose the low-cost loan from CGM mentioned above**.

4) **Bernie Freibaum ('BF'), GGP's CFO, and his wife have bought an unexplainably large amount of GGP stock personally since December 2001, at $82.3 million**. Purchases of this size are unexplainable through a reasonable look at Bernie Freibaum's historical income streams, implying a material lack of disclosure of the vehicle or method through which he financed the purchases.

Below each of these points in are supported in further detail.

Background Information – Summary of Events and Facts Around the Time of the Claims Made Above

The Bucksbaum family owns substantial amounts of GGP stock within a series of trusts, most of which collectively fall under MB Capital Partners III ('MBCP'). On April 1st 2008, this share ownership totaled 69M shares, or 22% of the outstanding stock.

In early August 2007, GGP had received an SEC comment inquiring about line items in GGP's latest 10K. GGP had also missed guidance in its latest earnings release. On August 2nd 2007, GGP's management amended a prior agreement with CGM so that it could borrow $500 million and invest it directly in GGP's stock. This debt carried an interest rate of LIBOR plus 50 basis points, and was collateralized with GGP stock and a third party pledge on Matthew and John Bucksbaum's (co-founder and Chairman Emeritus of GGP, and CEO, respectively) share ownership, maturing in November 2009. The ***loan had no recourse*** to Matthew and John Bucksbaum's other assets.

At that time, the family trusts were divided into 2 divisions – Division A and Division B. The President and Trustee of the Division B entities was Matthew Bucksbaum ('MB'), while Division A represented trusts that did not have MB in an executive capacity. 15 days later, MB stepped down as Chairman of GGP.

By early 2008, articles began circulating regarding GGP's large debt load. In response to the allegations that GGP could end up like the recently defaulted Centro Properties Group, GGP put out a press release on Saturday, January 19th 2008 at 9pm, titled "General Growth Responds to Recent Statements in the Press and Blogs". Subsequent to this press release, GGP re-doubled its efforts on de-leveraging itself[3]. On March 19th 2008, it put out a press release stating it had refinanced $1.3 billion of mortgage notes and was in discussions on alternative methods of financing. On March 25th 2008, GGP announced an $822 million equity offering with an unnamed counterparty, representing 7.7% of the then-current common shares outstanding. GGP announced that John Bucksbaum ('JB') would co-participate in the equity offering, contributing $88 million of his own funds. Without mention in the press release, JB amended the terms to the expanded loan agreement with CGM. The March 2008 amendment allowed MBCP to borrow another $88 million at LIBOR plus 50 basis points from CGM. The third party pledge of MB and JB's shares was terminated, even though the credit risk of the position presumably was going up. Even though 6.9% of the diluted outstanding stock was sold to a counterparty, there have been no subsequent filings revealing the identity of that counterparty. MB also removed the Division B entities from the trust collateralizing the CGM loans, MBCP, in a one-for-one stock swap for the same shares outside the trust.

1- Aggressive financial action – Borrowing against MBCP

Background Information on Credit Received from CGM

MBCP originally received a loan from CGM to finance the exercise of warrants issued in connection with the financing of GGP's $14 billion acquisition of The Rouse Company in November 2004[4]. MBCP received $500 million through an amendment on August 2nd 2008. It then borrowed an additional $88 million through an amendment on March 24th 2008. MBCP now has 69 million shares, as of April 1st 2008. Based on GGP's stock price at market close on April 21st 2008 of 39.69, this implies a market value of $2.74 billion. Thus, MBCP now has a debt to capitalization ratio of 21.5%.

Large Borrowings, Coupled with Large Acquisitions and Symbiotic Relationships have been Problematic for Large Companies in the Past!

In the past, borrowing heavily with stockholdings as collateral has been a red flag for corporate malfeasance.

Bernard Ebbers, CEO of WorldCom, borrowed heavily against his stockholdings. He ended up borrowing over $1 billion in mortgage notes from Travelers, a subsidiary of Citigroup, and $183 million in margin loans from Bank of America to finance the purchase of 500,000 acres of timberland, a ranch, WorldCom stock, and other hard assets[5]. These loans were secured against the assets themselves, in addition to Ebbers' stockholdings[6]. Citigroup and Ebbers had a symbiotic relationship, with Citigroup making large amounts of money off of fee income generated by deal flow at WorldCom. Off of the WorldCom / MCI deal alone, Citigroup earned $32.5 million in advisory fees. Mr. Ebbers, in turn, was given preferential access to profitable IPO allotments. Both parties had a vested interest in keeping WorldCom's stock price up. When the tech bubble burst, Bank of America lost confidence in Ebbers' ability to make good on his margin debt. It issued a margin call which forced immediate repayment of the outstanding debt. Ebbers' position in the company was substantial enough that selling the shares necessary to pay back the loan would have inflicted additional damage to WorldCom's stock price, creating a negative feedback loop. This prompted him to instead take out corporate loans from WorldCom, which led to the creation of Section 402 of Sarbanes Oxley, prohibiting the use of corporate loans to executives.

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There are a few parallels between GGP and WorldCom.

- **GGP now, like WorldCom then, is a mature, well established company within its industry**. GGP is now the 2nd largest mall REIT in the US. WorldCom , after their takeover of MCI, was the 2nd largest US long distance company.
- **Both companies rose to prominence through acquisitions** – GGP's total assets went up by a factor of 3.5x, from $7.3 billion in 2002 to $25.4 billion in 2004. A $14 billion acquisition in 2004 drove most of the growth. Similarly, WorldCom's $37 billion takeover of MCI (a company 3 times WorldCom's size) was the largest takeover in history. Both companies clearly rose to prominence through acquisitions.
- **Both companies made major acquisitions near the peak of the market cycle of their respective markets** (ex. at the top of the bubble). WorldCom's major acquisition was made in 1997, 3 years before the tech market popped. GGP's major acquisition occurred in 2004, 2 years before the market popped.
- **Like Mr. Ebbers, the Bucksbaum family is well established at the helms of their respective companies**.
- **Both CEO's borrowed very heavily against their stock holdings**.
- **Citigroup has a symbiotic relationship with GGP now as it did then with WorldCom**. As can be seen on Citigroup's conflict of interest webpage, CGM has investment banking-related, securities-related, and non-banking / non-securities-related business with GGP[7]. CGM was 1 of the 2 Initial Purchasers associated with GGP's $1.55 billion convertible offering on April 16 2007[8]. As noted in the S-3 GGP filed on August 15th 2007 when the convertibles were registered for resale, GGP noted that it had ongoing relationships with some of the convertible holders - some are lenders, and some provide commercial banking services on mortgage loans. It is fair to believe they were primarily referring to CGM, who was generating fees off of GGP's mortgage note deal flow, fees from offerings like the convertible offering done in April 2007, and interest income from mortgage notes it has directly extended to GGP.

Large personal borrowings and large acquisitions, coupled with a symbiotic relationship with a large financial institution skews the incentive structure of management teams. GGP suffers from this combination, as WorldCom did then.

2- Questionable financial action – MB distances himself from this financial arrangement

Background Information on the Bucksbaum Family

The Bucksbaum family founded and has run General Growth, in various legal forms, since 1964. Martin and Matthew Bucksbaum were the original founders, forming the General Growth Properties REIT in 1964. In 1972, General Growth was listed on the NYSE. By 1984, General Growth fell into a financially disadvantageous position. It sold 19 malls to another company and liquidated the REIT, but continued to manage subsequently. A large acquisition in 1989 made General Growth the second largest mall manager in the US, and in 1993, General Growth did an IPO to form GGP, the legal entity we see today. In 1999, Matthew Bucksbaum stepped down as CEO and John Bucksbaum ('JB'), Matthew's son, replaced him. In November 2004, GGP completed the $14 billion Rouse acquisition, which established GGP as the 2nd largest mall REIT. In August 2007, MB stepped down as Chairman of GGP, and was replaced by JB.

Background Information on MBCP

MBCP is a general partnership with three primary general partners – (1) trusts for which the General Trust Company ('GTC') is the trustee, whose president is Marshall Eisenberg; (2) Matthew Bucksbaum Revocable Trust ('MBRT'), whose trustee is Matthew Bucksbaum ('MB'); (3) General Growth Companies ('GGC'), whose president is Matthew Bucksbaum. MBCP represents a collection of 21 individual trusts through which the Bucksbaum family has partial ownership in GGP.

Details of the Separation of Interests within MBCP

On August 1st 2007, the MB Capital Agreement was formed. Through this agreement, MB Capital was divided into 2 parts – Division A and Division B. Division A represented the trusts which had the General Trust Company as the trustee. Division B represented MBRT and GGC. It was agreed that Division A was entitled to 97.375% of the assets and liabilities as of August 1st 2007, and 100% of the assets and liabilities thereafter[9]. By removing any pecuniary interest in the assets associated with the August 2007 borrowings, MB's Division B entities took one step away from the lending agreements.

On March 1st 2008, in conjunction with the $88 million of additional loans from CGM, a Redemption Agreement was formed. Through this agreement, MB removed the Division B assets from MBCP. Each share owned within MBCP was swapped for the same amount of shares outside of MBCP. This completed the separation of interest.

Rationale Behind the Separation

Given there was no substantive change in share ownership and no shares were monetized or taken out of a trust, its plausible and seems fair to believe the trusts were taken out because of another confounding factor. One reasonable confounding factor is that this financial arrangement exposes its trustees to legal liability and 'headline risk'. Another is the creation of credit risk within the family trusts due to excessive leverage and concentration. Yet another is a differential risk proclivity between the older Matthew Bucksbaum, who is now retired, and his younger, more ambitious son John. It seems fair to believe that some combination of all of these reasons may have played a part in this decision.

3- Questionable financial action – CGM engaging in non-arms length transactions with GGP

Original Loan Terms

The original $500 million loan that CGM extended to GGP in August 2007 was at an interest rate of LIBOR plus 50 basis points with expiry in November 2009. The loan was collateralized by MBCP's stockholdings, in addition to a third party pledge of the shareholdings of MB and JB.

Compared to the approximately 6% effective interest rate GGP itself is getting, the 3.4% rate MBCP is currently getting is quite favorable. One would think that if managment could arrange this level of financing for concentrated collateral on a non-recourse basis for their trusts, it would be able to do so for the overall corporation, unless there are other factors involved.

Revised Loan Terms

MBCP had to revise the original loan agreement to increase its borrowing capacity. Yet the revised credit terms got weaker, not stronger - despite the fact that the overall credit market was much worse, the overall equity markets (collatera) got much worse, the overall CRE market was much worse (the assets behind the collateral), and the financial condition and headline risks to the lender (Citibank) was much worse off than when the first terms were negotiated. Something smells more than fishy! When MBCP went to borrow another $88 million from CGM, the third party pledge of MB's and JB's shares was terminated. Also, as noted in a summary of the agreement, not even the entire stockholding of MBCP is held as collateral: "*Advances under the Loan Agreement for the Purchased Shares are collateralized by **certain** Common Stock held by M.B. Capital, including the 2007 Purchased Shares.*" [emphasis mine] Finally, 1.5 million shares were removed from MBCP altogether as a result of the above-mentioned redemption of Division B. Taken together, CGM (Citigroup Global Markets) has accepted a substantially worse deal at a time when it appears they should be much, much more stringent with their lending and terms.

Note further that the stock price performance, CRE outlook and macro environment over that time period had deteriorated, not improved, implying that this change of terms had little to do with a change in the fundamental outlook for GGP. The dividend-adjusted stock price at the time of the original loan on August 2nd 2007 was 45.27, but that the stock had dropped to 40.46 by the time of the March 2008 offering.

A 3.4% interest rate loan when the collateral is 1 stock, at a debt-to-capitalization of 21.5% off of a non-distressed stock price appears to be below-market. Given that the underlying stock has the highest leverage of all publicly traded mall REITs reinforces the perception that this is a below-market rate.

Conclusion

Based upon this data, it appears clear that this March 2008 transaction was not done at arm's length, for undisclosed reasons. This supports the view that there is a symbiotic relationship between CGM and GGP, prompting financial decisions which are not explainable purely through fundamental supply and demand.

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1- Nondisclosure of required material information: Revised Loan Agreement, April 1st 2008

As is noted from the 13D/A: *"This summary of the terms of the Loan Agreement is not intended to be complete and is qualified in its entirety by reference to the Loan Agreement attached as an exhibit to the Schedule 13D."* There were 3 exhibits filed with the SEC – (1) MBCP's Amended Partnership Agreement, (2) MB's Redemption Agreement, and (3) the Purchase and Sale Agreement. I have discussed at length the former 2. The latter exhibit discloses the details driving MBCP's purchase of 2.445 million shares of GGP stock at $36. The Loan Agreement is simply not disclosed, even though GGP clearly states it was supposed to be disclosed.

This agreement is important. Among other things, it fully discloses the revised terms between CGM and GGP, including the details of the revised collateral. This is material information which is supposed to be available to the public, but is not.

2- Nondisclosure of required material information: Opacity on offering counterparty

Based on news released to the public, the counterparties in GGP's equity offering bought 7% of the diluted shares outstanding. Yet for some reason, the buyers were not disclosed in the original press release. Subsequently, there were two mentions of the counterparties – (1) in the Q1 2008 10Q, GGP stated that one of the counterparties was FMR; (2) in the Q1 2008 conference call, GGP stated that they did the deal with 'large existing shareholders', without naming names.

The equity offering as a whole diluted the existing shareholders by 8% at a discount to the then current price, so this was a very material transaction. I personally cannot think of any company which has been so intentionally indirect with an equity offering.

Two questions that come to mind are (1) why would GGP have such a policy of non-disclosure? (2) What might have happened? At this point it is hard to say exactly, but this does cause one to wonder.

3- Nondisclosure of required material information: Unmentioned borrowing to fund co-participation

In GGP's March 24th 2008 press release over their equity financing, GGP's CEO heavily emphasized his co-participation in the offering: "This offering includes 2,445,000 shares of Common Stock that are being sold to MB Capital Partners III, which is an affiliate of Matthew Bucksbaum, our Chairman Emeritus, and John Bucksbaum, the Chairman of the Board of Directors and our Chief Executive Officer.[10]"

No mention was made of the borrowings used to fund the purchase until 1 week later, in a 13D filing for the General Trust Company. Once again, very important information is put in the footnotes, if at all.

4- Nondisclosure of required material information: Bernard Freibaum's large stock purchases

Background

$82 million of stock were purchased by BF and his wife since December 2001. $53.9 million were purchased since August 2006. Given a reasonable view of BF's historical income streams, it appears that BF has in all likelihood used large amounts of borrowed funds to purchase stock. If true, this presents two problems.

- There has been no disclosure of any borrowings made by BF, even though this is material information.
- For the same reason that borrowed funds skews the incentive structure for the CEO, it would also skew the incentive structure for the CFO.

Historical Insider Buying

BF's historical purchases can be found in the Form 4's that he has filed with the SEC.

Filer Name	Title	Trans Type	Dollar Value	Shares Traded	Trans Date	Trans Price	Total Holdings	Owned
FREIBAUM, BERNARD	CFO	B	$72,620	2,000	2/14/2008	$36.31	47,000	I
FREIBAUM, BERNARD	CFO	B	$1,019,430	28,200	2/14/2008	$36.15	7,541,015	D
FREIBAUM, BERNARD	CFO	B	$206,500	5,000	12/19/2007	$41.30	45,000	I
FREIBAUM, BERNARD	CFO	B	$412,300	10,000	12/19/2007	$41.23	7,512,815	D
FREIBAUM, BERNARD	CFO	B	$34,965	700	11/7/2007	$49.95	7,502,815	D
FREIBAUM, BERNARD	CFO	B	$2,236,780	45,500	9/17/2007	$49.16	7,502,115	D
FREIBAUM, BERNARD	CFO	B	$636,350	13,000	9/14/2007	$48.95	7,456,615	D
FREIBAUM, BERNARD	CFO	B	$1,355,750	29,000	8/6/2007	$46.75	7,443,615	D
FREIBAUM, BERNARD	CFO	B	$5,255,630	113,000	8/3/2007	$46.51	7,414,615	D
FREIBAUM, BERNARD	CFO	B	$1,092,985	23,500	8/3/2007	$46.51	40,000	I
FREIBAUM, BERNARD	CFO	B	$544,500	10,000	6/8/2007	$54.45	7,301,137	D
FREIBAUM, BERNARD	CFO	B	$1,368,750	25,000	6/7/2007	$54.75	7,291,137	D
FREIBAUM, BERNARD	CFO	B	$681,600	12,000	5/18/2007	$56.80	7,266,137	D
FREIBAUM, BERNARD	CFO	B	$579,500	10,000	5/17/2007	$57.95	7,254,137	D
FREIBAUM, BERNARD	CFO	B	$1,357,000	23,000	5/16/2007	$59.00	7,244,137	D
FREIBAUM, BERNARD	CFO	B	$3,274,752	53,300	5/11/2007	$61.44	7,221,137	D
FREIBAUM, BERNARD	CFO	B	$1,330,427	21,700	5/10/2007	$61.31	7,167,837	D
FREIBAUM, BERNARD	CFO	B	$15,476,406	249,700	5/4/2007	$61.98	7,146,137	D
FREIBAUM, BERNARD	CFO	B	$10,986,051	175,300	5/3/2007	$62.67	6,896,437	D
FREIBAUM, BERNARD	CFO	B	$1,603,500	25,000	3/16/2007	$64.14	6,721,137	D
FREIBAUM, BERNARD	CFO	B	$3,294,500	50,000	2/22/2007	$65.89	6,336,137	D
FREIBAUM, BERNARD	CFO	B	$1,090,000	25,000	8/11/2006	$43.60	5,948,951	D
FREIBAUM, BERNARD	CFO	B	$56,030	1,300	5/19/2006	$43.10	5,903,434	D

FREIBAUM, BERNARD	CFO	B	$417,145	9,500	5/18/2006	$43.91	5,902,134	D
FREIBAUM, BERNARD	CFO	B	$461,055	10,500	5/17/2006	$43.91	5,892,634	D
FREIBAUM, BERNARD	CFO	B	$1,898,000	40,000	3/8/2006	$47.45	5,882,134	D
FREIBAUM, BERNARD	DIR	B	$340,217	8,300	11/7/2005	$40.99	5,582,134	D
FREIBAUM, BERNARD	DIR	B	$888,181	21,700	11/4/2005	$40.93	5,582,134	D
FREIBAUM, BERNARD	CFO	B	$835,000	20,000	8/8/2005	$41.75	5,448,708	D
FREIBAUM, BERNARD	CFO	B	$806,520	28,200	6/14/2004	$28.60	4,444,455	D
FREIBAUM, BERNARD	CFO	B	$1,302,488	45,100	5/28/2004	$28.88	4,416,255	D
FREIBAUM, BERNARD	CFO	B	$1,752,750	61,500	5/27/2004	$28.50	4,416,255	D
FREIBAUM, BERNARD	CFO	B	$267,100	10,000	5/5/2004	$26.71	4,309,655	D
FREIBAUM, BERNARD	CFO	B	$268,500	10,000	5/3/2004	$26.85	4,299,655	D
FREIBAUM, BERNARD	CFO	B	$993,000	30,000	3/16/2004	$33.10	4,229,655	D
FREIBAUM, BERNARD	CFO	B	$3,862,500	150,000	12/16/2003	$25.75	4,001,655	D
FREIBAUM, BERNARD	CFO	B	$468,175	6,100	11/21/2003	$76.75	1,283,885	D
FREIBAUM, BERNARD	CFO	PB	$2,018,250	30,000	8/29/2003	$67.28	1,244,602	D
FREIBAUM, BERNARD	CFO	B	$197,850	3,000	8/4/2003	$65.95	1,214,602	D
FREIBAUM, BERNARD	EX VP	B	$11,574,750	305,000	12/18/2001	$37.95	932,294	D
FREIBAUM, BERNARD	EX VP	B	$21,229	695	6/29/2001	$30.55	547,294	D
FREIBAUM, BERNARD	EX VP	B	$21,229	894	6/30/2000	$23.75	451,599	D

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Historical Income Streams

We can get a fairly reasonable view of BF's earnings by looking at his past jobs and his compensation history at GGP.

Compensation at GGP

All compensation back to 1995 is publicly available in GGP's proxy statements. It is reproduced below:

Year	Base	Bonus	Other Cash	Total
2007	1,100,000	1,000,000	559,895	2,659,895
2006	1,000,000	1,000,000	551,696	2,551,696
2005	1,000,000	0	536,001	1,536,001
2004	900,000	0	464,672	1,364,672
2003	850,000	0	350,814	1,200,814
2002	800,000	0	352,860	1,152,860
2001	750,000	0	361,494	1,111,494
2000	500,000	0	328,968	828,968
1999	450,000	0	361,363	811,363
1998	450,000	0	315,256	765,256
1997	400,000	0	200,000	600,000
1996	300,000	0	200,000	500,000
1995	225,000	0	200,000	425,000

Dividends at GGP

Based on BF's stock ownership records, we can also approximate the dividend payments he has received over the past 8 years. These figures are presented below:

	2000	2001	2002	2003	2004	2005	2006	2007
GGP Dividends/share	0.69	0.8	0.92	0.78	1.26	1.49	1.68	1.85
BF Shares owned (k)	452	499	932	1,778	4,391	4,980	5,921	7,259
Dividend Inflow ($k)	**312**	**400**	**858**	**1,387**	**5,532**	**7,420**	**9,947**	**13,430**

For the last 4 years, the CFO's dividend income from his financial transactions outside running the company has easily outstripped the income receieved from direct corporate comensation. Earlier in this missive, I claimed that GGP can't afford its current dividend! The continuation of the dividend despite the fact that it must be financed through internal sources can now be sourced to a potential conflict of interest posed by the compensatory income streams of the CFO. Do we do what's best for the company or do what's best for my brokerage accounts.

Prior Jobs

We also know BF's prior jobs, dating back to when he was at the beginning of his career.

- From age 40 to the present, BF has been at GGP as the CFO.
- From age 39 to age 40, BF was at Ernst and Young as a consultant.
- From age 32 to age 39, BF was the CFO and General Counsel of Stein and Company, a real estate development and service company.
- From BF's early 20's to age 32, BF was in various positions at Ernst and Young, American Invesco Corporation and Coopers and Lybrand LLP.

While serving as the CFO and General Counsel of Stein and Company, BF received an equity stake in the company. This, plus his cash compensation at each of these jobs, can be conservatively estimated. A conservative assumption is that his equity stake in Stein and Company was sold for $5 million after-tax.

Summing up BF's Compensation

Based on the above information, in conjunction with conservative assumptions on his pay at earlier firms, his tax rate, and his average consumption per year, it is extremely unlikely that BF has generated more than $32 million in post-tax, post-consumption income. And yet he appears to have bought $82 million worth of stock at an average cost of 47.3. There is a $50 million difference between these two figures. While individual assumptions may very well vary, this differential is inexplicably large.

$50 million is substantial relative to his cash on hand. It is also very large relative to his total net worth, even when factoring in the value of his current share ownership in GGP. It implies that he has borrowed at least 20% of his net worth, and probably more, to buy GGP stock. BF will be in dire financial straits if anything was to happen to GGP's stock, and he is already underwater on his purchases. Thus, even if there is no nefarious plans underfoot, the CFO is under immense pressure to maintain the auspices of a healthy stock, even at the expense of true shareholder value. If there is a true lack of disclosure regarding funding sources, well then that is a totally different story with a plethora of additional and probably negative consequences.

Lack of Disclosure is a Problem

It is clearly very material information for the public shareholders if BF has indeed borrowed 20% of his liquid net worth to buy GGP stock. Yet no disclosures have been made. It is also unknown how BF has structured his ownership of GGP stock – whether it is in a trust, or in some other vehicle. That information would be helpful to better understand the recourse nature of any debt obligations BF may have. While the Bucksbaums have disclosed both the vehicle through which they own their stock, as well as the leverage they have employed (unless they have omitted other loans), BF has done neither. This is a very material lack of disclosure which the investing public deserves to know more about.

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Pam Howell: http://www.sec.gov/Archives/edgar/data/895648/000000000007041058/filename1.pdf

'Uneasy Money – What's Wrong?' Wall Street Journal, August 1st 2002: http://www.pulitzer.org/year/2003/explanatory-reporting/works/wsj2.html

'General Growth Shops for Partners' – Wall Street Journal, April 16 2008: http://online.wsj.com/article/SB120831674586718783.html. "We're telling the market that we're going to reduce our leverage."

Reference Link from 13D/A filed 4/1/2008: http://yahoo.brand.edgar-online.com/displayfilinginfo.aspx?FilingID=5841123-1487-50552&type=sect&TabIndex=2&companyid=5306&ppu=%252fdefault.aspx%253fcik%253d895648

Timeline of events at WorldCom: http://www.pbs.org/wgbh/pages/frontline/shows/wallstreet/wcom/cron.html

Description of problem loan from Bank of America: http://www.pbs.org/wgbh/pages/frontline/shows/wallstreet/wcom/players.html

Citi Investment Research Disclosures – General Growth Properties: https://www.citigroupgeo.com/geopublic/Disclosures/GGP.html

"*On April 16, 2007, GGPLP issued $1.55 billion aggregate principal amount of Notes* ***pursuant to a purchase agreement (the "Purchase Agreement") with Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated (collectively, the "Initial Purchasers")*** *under which GGPLP agreed to sell the $1.55 billion principal amount of Notes (plus up to an additional $200 million principal amount of Notes at the option of the Initial Purchasers) in private offerings exempt from registration in reliance on Section 4(2) of the Securities Act. The Purchase Agreement contemplates the resale by the Initial Purchasers of the Notes to qualified institutional buyers in reliance on Rule 144A under the Securities Act, at a price equal to 98% of the principal amount of the Notes.*" – 8K, filed 4/17/2007 [emphasis mine]

"M.B. Capital invests in the Common Stock and Units pursuant to the Second Amended and Restated Agreement of Partnership of M.B. Capital Partners III dated as of August 1, 2007 (the "M.B. Capital Agreement"). The M.B. Capital Agreement provides for two divisions of M.B. Capital. ***Division A, which consists of trusts of which GTC is the trustee, is entitled to 97.375% of the assets and liabilities of M.B. Capital as of August 1, 2007 and 100% of the assets and related liabilities acquired by M.B. Capital from and after August 1, 2007****. Division B, which consists of the Matthew Bucksbaum Revocable Trust and GGC is, entitled to 2.625% of all assets and liabilities of M.B. Capital as of August 1, 2007."* - 13D, filed 8/22/2007 [emphasis mine]

0. "General Growth Prices Offering of Common Stock", March 24th 2008. Link: http://www.ggp.com/Company/Pressreleases.aspx?prid=410

The reported figure is $1105

The reported figure is $2816

The reported figure is $2067

The reported figure is $3540

The reported figure is $3403

Address article on the site boombustblog.com:
http://boombustblog.com/index.php/20080615425/GGP-and-the-type-of-investigative-analysis-you-will-not-get-from-your-brokerage-house.html

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...
written by James Perry, June 15, 2008
Thanks for the update. This is a brilliant article - possibly your best yet (which is really saying something!) given the level of detailed explanation.

Like you, I was really surprised that they paid down the revolver. It makes no sense unless, as you said, the banks are becoming much less willing to lend to them.

Whatever's going on, it doesn't look good.

+1

...
written by Reggie Middleton, June 15, 2008
Thanks but this was a collaborative effort and much of the content came from somewhere else. Ryland has done the same thing, swapped, long term debt for short term, and similarly their stock price is floating on water as well. hmmm!

+0

...
written by a b, June 17, 2008
Independent Nashville researcher David Trainer says GGP, HIW "vastly overpriced".
--Marketwatch.

+0

ggp

written by daan everts, June 17, 2008
During NAREIT the company mentioned they are issuing a private CMBS that could generate between 1.5bn - 3bn cash,, in order to meet their upcoming obligations. The deal was originally supposed to be for less, so aparantly they are seeing demand for their assets. I am concerned about that, otherwise I like it in a pair trade in which the long is DDR. thanks for the research.

+0

...
written by Donald Ruffkin, June 24, 2008
No announcement "at or near the end of June"?
"Just as we did last quarter, *at or near the end of June*, we expect to provide you with a summary of all the debt and/or other capital transactions that were completed or will close during the second quarter of 2008." from the Q1 08 CC: http://seekingalpha.com/articl...hoo&page=2

Or earlier?
"The Company will separately announce major financing transactions, if any, as they occur." from http://biz.yahoo.com/bw/080319....html?.v=1

GGP has talked a big game on its financing options thus far, with no actual results. I think they are already undperforming relative to their claims thus far, but in another few days, they will miss their financing guideline provided in the Q1 08 call.

In the meanwhile, the news on Steve & Barry doesn't bode well for the leasing environment. It's looking for rescue funding of $30M, and has hired GS and a bankruptcy lawyer. Yikes. They have 270 stores right now. The malls were paying S&B to open stores that would have been "barely profitable": "Much of the company's earnings came in the form of one-time, up-front payments from mall owners. Those payments were designed to lure the retailer to take over vacated sites, say several people familiar with the company."

The malls are paying a marginal player like S&B with great one time payments just to keep their stores full. This is the sort of thing you typically see before a downturn, as attempts to throttle demand artificially on the margin start to backfire.
http://online.wsj.com/article/SB121401142593693967.html

+0

...
written by Reggie Middleton, June 24, 2008

You know, that I know, that you know there probably will not be any announcement. The commercial RE finance arena is getting rougher by the month, and GGP's situation is ornery for anyone who bother's to take a real look at what is going on.

I am curious to see what will come of it. I'm sure you've noticed their share price is starting to break.

+0

Just another illustration of credit drying up....
written by Jason Bohmann, June 24, 2008
I have been approached by two real estate development groups locally to invest and find private equity for 4 deals in the Houston area. Both of the groups know that my clients have money and an appetite for these types of deals.....
I find it funny though because I've been wondering how long it would be before these groups come (are forced) to find alternative pools of capital.
Both sets of developers are very successful and have great 5 to 10 year track records, but they have both stated that bank financing is completely dried up for r.e. projects..... even here in Houston where things are slowing, but still booming.

Secondly, I heard today that Amegy (Zions owned) won't do jumbo loans because they can't get rid of them. They told this to a large corporate client for his personal home---he has big dollars on deposit.
I can only imagine how it is in regions where thinks are in a meltdown.

Also, just for grins, run a mortgage quote request at bankrate.com
If you've done this previously (3 or 4 years ago) you would have seen 50 to 70 offers even if you put 5% down. I recently ran one on a 30 YR, 20% down, $300K loan and a total of 3 offers for quotes came in ..... there was a 75bps spread between them (BAC was the highest at 7%).
If you think the housing market is going to turn around soon, you might want to tell the banks that they have to lend so people can buy.....

+0

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written by dale brunton, June 29, 2008
Bernard Freibaum - Executive Vice President and Chief Financial Officer

Increase in land value in Las Vegas and Houston used to create write-ups to offset write-downs in other markets. How can Las Vegas property be increasing in value? Projected cash flow from their strip property must be more than offsetting the suburban properties. It's not what you project for the next couple year that matters, its the next 28 that count. Long term thinking for a company in need of shorter-term cash.

The valuation of land that's being developed over 30 years is very different process than valuing unsold homes for example, if you're a builder or even lots owned by a builder who has obviously got them in inventory. So the valuation process involves a long-term cash flow model with numerous assumptions, and this is what we use both for this annual evaluation as well as a re-valuation and effect every quarter to determine how much of our cost is attributable to land that it sold for booking profit. We did have a write down in Columbia and Fairwood fairly significant one but the total holdings there and the book value attributable to that land is low. So, the land in Vegas and Huston did make up for the reduction in the value of Columbia and Fairwood. Huston, the Woodlands and Bridgeland are two of the best projects in the city.

The city remains very strong, very strong employment, the energy economy there is keeping things well balanced. There never was a bubble there, and in Las Vegas it's difficult to explain this, but never the less because of the limited availability of land in the valley and in particular in Summerlin. I know, Summerlin is just a section of the valley in the west, but if you look at the Summerlin submarket there isn't any additional land available and our company owns literally all the undeveloped land in Summerlin. The rest is owned by the Bureau of Land Management.

And, the way the model works, if you do a 20 or 30 year long-term projection and you consider the net price of value of all that activity, you get a number and despite the soft current environment for housing including in Summerlin because builders have excess inventory. Yes, it has an impact on the land valuation in Summerlin, because the shorter-term cash flow has been reduced because of the lack of demand for land, but when you factor in the intermediate in the longer-term, and also I mentioned last quarter that after adjusting the estimate of salable acres during the last couple of quarters there, which hadn't been really visited for 5 or 10 years because of the nature of the way the land is developed in sections, would determine that we had a greater number of salable acres as well. So, that's another factor that when you take it into consideration despite the write down in Columbian Fairwood, the overall valuation of the entire portfolio remains where it was at the end of last year.

+1

...
written by dale brunton, June 29, 2008
Please note first paragraph of above comment attributed to me. The rest is from 2008 1st Qtr conf call Q&A...

+0

...

written by Reggie Middleton, June 30, 2008
@dbruton:
I noticed this in their call as well. I am appalled that the analysts present did not take them to task on this. They have literally created a reality in which they can generate revenues and profits. Since not one can accurately predict what will happen 28 years into the future, and they have failed to give us a scenario for 29 months into the future, we should expect the worst.

+0

...
written by a b, July 04, 2008
Interesting story about delay in CA project http://www.sacbee.com/elkgrove/story/1037325.html
GGP denies problems leasing... was scheduled to open 2008, now fall 2009...

+0

...
written by a b, July 04, 2008
Birmingham ghost mall
http://georgiaretailmemories.b...mall.html
yikes

+0

...
written by a b, July 04, 2008
http://georgiaretailmemories.b...-mall.html

+0

Bogus, biased analysis of exec stock purchases
written by Socrates, July 08, 2008
Your analysis of the CFO's stock purchase is laughably inept. Have you even considered how execs make these purchases in the real world - with loans/on margin, not with 100% cash!

Stock market 101 tells you that you don't need $10M to buy $10M in stock. You combine that with the fact that the average purchase price on the first $20M of stock was at an average price

+0

...
written by Donald Ruffkin, July 09, 2008
That was the point - he borrowed a ton of money to buy stock and are now in over their heads. Leverage doesn't change how large GGP stock is now as a percentage of the CFO's net worth.

Quote:
"$50 million is substantial relative to his cash on hand. It is also very large relative to his total net worth, even when factoring in the value of his current share ownership in GGP. It implies that he has borrowed at least 20% of his net worth, and probably more, to buy GGP stock. BF will be in dire financial straits if anything was to happen to GGP?s stock, and he is already underwater on his purchases. Thus, even if there is no nefarious plans underfoot, the CFO is under immense pressure to maintain the auspices of a healthy stock, even at the expense of true shareholder value. If there is a true lack of disclosure regarding funding sources, well then that is a totally different story with a plethora of additional and probably negative consequences."

I would take this a step further and once again draw a parallel to our friends at Centro: http://www.theaustralian.news....43,00.html

"Andrew Scott, the former chief executive of the Group, spruiked margin loans to his senior staff and heavily promoted the benefits of the stock to employees.

Six to eight senior executives have had to sell or are selling their investment properties after the margin loans were called in when Centro's share price plummeted 76 per cent on December 17, according to a former Centro executive. "

The "point" is that he has completely shackled himself and his family to the performance of this stock, which creates the incentive to keep the stock up however possible.

+0

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Last Updated (Wednesday, 03 December 2008)