GENERAL GROWTH PROPERTIES:
TO THE BRINK AND BACK

December 6, 2011

Students:
Yu (Cherry) Chen, Kevin Connolly, Bill Davis,
Stephen Duncan, James Faello, Michael Hazinski, Noah Johnson

Faculty Supervisor:
Joseph L. Pagliari, Jr.

Copyright © 2011 The Real Estate Group at The University of Chicago Booth School of Business
All Rights Reserved

This case study has been prepared solely for academic purposes. It should not be construed as a judgment about or an endorsement of any particular business matter. Moreover, the information contained herein has been obtained from sources we believe to be reliable; however, we make no representation or warranty as to its accuracy.
# TABLE OF CONTENTS

**EXECUTIVE SUMMARY** .................................................................................................................. 1  
**GENERAL GROWTH BACKGROUND** .......................................................................................... 7  
  2004: A Historic Year for General Growth..................................................................................... 9  
  2005-2006: Secured Mortgages and Increasing Debt...................................................................... 16  
  Simon vs. GGP - Capital Markets Strategy..................................................................................... 24  
**IMPACT OF THE CREDIT CRISIS** ................................................................................................. 31  
  GGP Faces Liquidity Challenge....................................................................................................... 37  
  Management Changes...................................................................................................................... 41  
  Last Steps before Bankruptcy........................................................................................................ 47  
**THE BANKRUPTCY FILING** ........................................................................................................ 50  
  The Chapter 11 Process.................................................................................................................. 51  
  Key Rulings..................................................................................................................................... 52  
  Financial Outcome for Various Classes of Claims......................................................................... 62  
**DEPARTING BANKRUPTCY** .......................................................................................................... 64  
  Rationales for Simon versus BFP.................................................................................................... 79  
  New GGP and Howard Hughes Corporation (HHC)..................................................................... 86  
  New GGP Board of Directors and Management Team ............................................................... 89  
  Comparison with Simon.................................................................................................................. 95  
**SUBSEQUENT EVENT** .................................................................................................................. 100  
**CASE QUESTIONS** ....................................................................................................................... 102  
**ACKNOWLEDGEMENTS** ............................................................................................................... 105  
**APPENDICES** ............................................................................................................................... 107
EXECUTIVE SUMMARY

In April 2009, General Growth Properties (GGP) filed for Chapter 11 bankruptcy protection, the largest real estate bankruptcy ever at that time. One of the biggest real estate companies in the world, GGP had been felled by a combination of collapsing credit markets, high overall leverage, and inflexible credit structures. Despite this seemingly epic collapse, GGP was able to successfully reorganize and maintain substantial value for its common stockholders. The events leading up to and during the bankruptcy would have long-standing effects on the company, including a complete overhaul of top management and the division of the company’s assets into two separate companies. This paper seeks to explore these topics in depth and provide a thorough analysis of the circumstances that forced the company to seek bankruptcy protection, the management of the bankruptcy process, and the company’s performance since re-emerging as a publicly traded company.

Focus on Growth
One of the most important characteristics at GGP was its emphasis on consistently growing the company. This took a number of different forms: growing net operating income (NOI) at existing locations, expanding through de novo developments, acquiring existing operations and maximizing the use of leverage.

This corporate philosophy had been true since the company’s IPO in 1993, but many people consider the $12.7 billion acquisition of the Rouse Company in 2004 as an inflection point. The company had to outbid several key rivals to complete the purchase, paying a premium to do so. As would ultimately prove imprudent, GGP provided only $500 million in equity to fund the acquisition, less than 4% of the total deal price.

GGP had almost doubled in size overnight, and issued de minimis equity to do so. The company’s leverage ratio spiked from 54% to 71%. This would have been acceptable on a short-term basis, as GGP had sufficient cash flow to cover debt service and the flexibility to de-lever over time, returning to a capital structure more in-line with its peers. However, to do so would have meant slowing down the growth engine. The company’s thirst for growth and leverage was satiated by the lending community’s loose underwriting standards prevalent in the mid-2000s. Ultimately precarious levels of leverage are what placed the company at the mercy of the credit markets in 2008.
Collapse of the Credit Market

With its high leverage and significant maturing debt ($2.1 billion in 2008 and $3.9 billion in 2009), GGP was dependent on a functioning credit market to continually refinance its debts. While all REITs are faced with this problem to some degree, GGP’s above-market leverage ratios made its exposure to the whims of the credit market more acute than their competitors.

This refinancing risk became a serious problem in summer 2007, when concerns about the value of real estate caused first RMBS (Residential Mortgage Backed Securities) and then CMBS (Commercial Mortgage Backed Securities) lending to grind to a halt.  GGP had been a significant user of CMBS lending because it often provided a lower interest rate and higher proceeds; the incremental proceeds provided capital to fund the growth that the company prized.  The downside of CMBS was a lack of counter-parties to negotiate with, as was the case with traditional life insurance lenders, when some sort of loan modification was needed.  The result left GGP with maturing debt, no apparent method of refinancing and no one who had the authority or inclination to extend the loan terms.

The collapse of Lehman Brothers in 2008 exacerbated the problem as the financial world and capital markets became paralyzed with fear.  What limited financing avenues had been available now appeared to have been cut off.  While they would not formally file until April 2009, it appears that when Lehman fell any chance of GGP avoiding bankruptcy collapsed as well.

Change in Management

In response to a rapidly worsening crisis, GGP replaced its management team over the course of the month of October 2008.  John Bucksbaum, Bernie Freibaum, and Bob Michaels (the CEO, CFO, and President, respectively) were all removed from their positions by GGP’s board of directors.

Freibaum, viewed by many as the architect of the company’s financial strategy, was the first to be let go.  The move came shortly after Freibaum had been forced to sell over six million GGP shares due to margin calls triggered by a plummeting stock price.  Almost immediately after his termination, word spread that Freibaum and Michaels had been loaned $100 million by the Bucksbaum family to cover losses on their margin trading accounts.  Although these loans did not violate SEC rules, the General Growth board of directors was infuriated by management’s non-disclosure of the loans and ultimately forced Bucksbaum to resign.  This was particularly noteworthy, as John Bucksbaum...
was the son of one of the company’s founders and his family owned over 20% of the company.

Current board members Adam Metz and Tom Nolan took over as the company’s new executive leadership. Very quickly after taking over, Metz and Nolan began positioning the company to file for Chapter 11 bankruptcy protection.

Value in Bankruptcy
Despite all the problems the company had run into over the past year, GGP’s operations were fundamentally strong. It had excellent cash flow, many “trophy” properties, and its total asset value exceeded its total liabilities. The company was solvent; it just had a severe liquidity problem.

One of the first outsiders to recognize and act on that fact was the hedge fund Pershing Square, which made significant bets on both GGP stock and unsecured debt at the height of the company’s uncertainty in November 2008. By January 2009, still three months before bankruptcy, Pershing Square had amassed control of 24% of the company’s stock through direct purchases and derivative contracts.

Despite great concern among many market participants, Pershing Square was confident that GGP would be able to realize significant equity value through a restructuring in Chapter 11 bankruptcy. In publicly available letters, Pershing Square’s CEO, Bill Ackman, referenced similar bankruptcy cases (the Till and Johns Manville cases) in which the filing company had successfully retained equity value by exiting bankruptcy with positive net asset value. Pershing Square’s support for the company’s common shareholders was a key factor in their attempt to retain some piece of the new GGP.

Bankruptcy-Remote Entities Challenged
When GGP filed for bankruptcy protection on April 9, 2009, it filed on behalf of the parent company and 388 subsidiaries. These single-purpose entities (SPEs) were the actual owners of the company’s real estate, and were the mortgagors with GGP’s lenders. Almost immediately after GGP filed, five of the company’s creditors sued to have the bankruptcy disqualified, believing that they had provisions in their loan agreements which effectively prevented GGP from filing Chapter 11.

These “bankruptcy remote” covenants had been designed to isolate the company’s individual assets from each other and, in theory, protect the lender from having their interests consolidated with other creditors. In particular, lenders on high-quality properties desperately wanted to avoid being consolidated, as that would in effect force
them to subsidize any under-performing assets. Despite the growing popularity of these provisions for more than a decade, this was the first time they would be so seriously challenged.

The creditors based their objections to the bankruptcy on a “bad faith” standard, arguing that the case was filed prematurely in that, at the time of filing, there was no immediate threat to the financial wherewithal of the property-level borrowing entities on these loans. The lenders further argued that the SPE nature of a property-level borrower required that each debtor’s financial condition be analyzed solely on its own merits, without consideration for the parent entity; since these entities were technically solvent, they should not be included in GGP’s corporate bankruptcy filing. This potential dismissal was critically important, since if the company had not been able to include these properties in the bankruptcy proceedings it would not have had sufficient assets to effectively reorganize the debts that were coming due.

After three months, the bankruptcy judge dismissed the creditors’ motion and allowed the solvent SPE subsidiaries of GGP to maintain their bankruptcy cases. In dismissing the motion, the judge decided that no requirement existed that an entity be in immediate financial distress before it could file a bankruptcy motion. He added that the SPE debtors were justified in considering the interests of the parent company in their own calculations. These two conclusions struck at the very heart of the bankruptcy-remote structure and paved the way for GGP to successfully navigate the Chapter 11 process.

**Competing Recapitalization Plans**

With the dismissal motion approved, GGP was free to focus on how to best reorganize its capital structure. To make the process more transparent, the company developed an objective restructuring “methodology” that could be applied in a standardized format to each secured lender, regardless of the loan size or type of lender. The methodology created a matrix of extension options that, based on objective criteria, would determine how a particular loan was to be restructured or extended. Beginning on December 15, 2009 and continuing through May 20, 2010, the bankruptcy court confirmed GGP’s fully consensual plans of reorganization for its project-level borrowing entities and successfully restructured approximately $15 billion of debt.

While the secured creditors were acceding to the restructuring plan, the company was also negotiating with potential new equity investors to raise the funds to pay off the outstanding unsecured bonds and the preferred stock. On February 8, 2010, Simon
Property Group, GGP’s largest competitor, made an offer to buy the entire company at $9 per share ($6 in cash and $3 in a new spin-off company).

An alternative plan emerged shortly thereafter when a consortium of investors led by Brookfield Asset Management proposed an alternative recapitalization plan. Under this plan, GGP would remain an independent company valued at $15 per share ($10 cash and $5 worth of stock from the same spin-off company as the Simon plan).

After multiple rounds of proposals, with each side upping its offer, GGP selected the Brookfield-led recapitalization plan in May 2010. This plan had the benefit of speed and certainty, as any deal with Simon would likely require anti-trust approval by the US federal government. While Simon ultimately offered a higher total price, the board believed that the timing and lack of obstacles to closing were more important.

Performance
Throughout this entire process, GGP made some moves that were questionable and some that were visionary. The challenge of this case is to fairly judge GGP on its process, and on its results; to try and determine, with the benefit of hindsight, which actions were flawed *a priori* and which were intelligent risks that backfired as part of a market-wide collapse?
TIMELINE OF GGP AND MARKETPLACE MAJOR EVENTS

- **1954**: GGP is born
- **1972**: GGP goes public for the first time
- **1993**: GGP files a $1.3B IPO
- **Nov. 2004**: GGP Buys the Rouse Company for $12.7B
- **Dec. 2004**: GGP fully recapitalizes the Rouse Acquisition facility
- **Mar. 2007**: GGP stock peaks at $67 per share
- **Aug. 2007**: REIT credit spreads increase dramatically
- **Dec. 2007**: Centro Properties suspends dividend
- **Jan. 2008**: GGP publishes Capital Road Map

**1990s to 2000s**:
- **Oct. 2009**: Bankruptcy Court approves the KEIP plan
- **Aug. 2009**: Judge dismisses the motion and allows the solvent, SPE subsidiaries of GGP to maintain bankruptcy cases
- **May. 2009**: Court enters an order authorizing the debtor to enter into a DIP Facility
- **Apr. 2009**: Motions to dismiss the bankruptcy case are filed
- **Mar. 2009**: GGP files for bankruptcy
- **Jan. 2009**: GGP misses the payment on $600 million of Rouse bonds due
- **Nov. 2008**: The Backsbaums convert their OP units
- **Oct. 2008**: Loans for Fashion Show & Shoppers at Palazzo technically go into default
- **Mar. 2008**: GGP replaces Bernie Freibraun as CFO and CEO
- **Jan. 2008**: John Backsbaum, and board Members
- **Oct. 2008**: Adam Metz and Tom Nolan are named CEO, COO
- **Aug. 2007**: GGP offers 22M shares at $36/share

**2010**:
- **Feb. 2010**: Simon submits first offer
- **Mar. 2010**: Brookfield submits initial offer
- **Apr. 2010**: Simon improves offer
- **May. 2010**: Simon and BPF both submit final offers
- **Jul. 2010**: Bankruptcy court approves the BPF plan and awards stalking horse status
- **Aug. 2010**: Simon withdraws offer
- **Sep. 2010**: GGP files the Plan and Disclosure Statement with the bankruptcy court
- **Oct. 2010**: Blackstone invests $500 million in GGP
- **Nov. 2010**: GGP reaches settlement with the Hughes heirs
- **Dec. 2010**: GGP emerges from bankruptcy

* BPF represents Brookfield Asset Management, Pershing Square Capital Management and Fairholme Capital.
GENERAL GROWTH BACKGROUND

In 1954 Martin, Matthew and Maurice Bucksbaum oversaw a small grocery store chain in central Iowa. The three brothers were scouting expansion opportunities and discovered a site in Cedar Rapids called Town & Creek Shopping Center. When the original developer was unable to secure financing for the project, the brothers made a fateful decision to transition from tenants to landlords/developers, and General Growth Properties (“GGP”) was born.

Town & Creek Shopping Center opened in 1956 and was the entry point for a family business that would evolve into a dominant player in the regional mall industry over the next 50 years.

GGP first went public in 1972, and the company’s board of directors included fellow Midwesterner Warren Buffett. After ten years as a public company, the Bucksbaums were reportedly frustrated with the public market’s valuation of their company. According to REIT historian Ralph Block: “No one paid any attention to REITs…The Bucksbaums got tired of the fact that the market wasn’t valuing their company the way it should be valued.”

---

In 1984, the company sold its 19 shopping centers for $800 million to Equitable Real Estate Investment Management. George Puskar, CEO of Equitable Real Estate, commented: “[The Bucksbaums] always had a vision of what was going on in the financial community. They were one of the first companies to go from public to private when the circumstances dictated it. And they knew when the market cycle shifted, and they went public again.”

The Modern Era of General Growth Properties

GGP operated as a private developer and asset manager until April of 1993, when GGP filed a $1.3 billion initial public offering. At the time of the IPO, the Bucksbaums contributed interests in 21 malls in 14 states.

The early 1990’s was a time when many operator/developers converted to Real Estate Investment Trusts (REITs) and filed IPOs. The list reads like a “who’s who” in the retail mall sector and includes Taubman Centers (1992), CBL & Associates (1993), DeBartolo Realty Group (1993), Simon Property Group (1993), and Macerich (1994).

General Growth’s decision to return to the public equity market was heavily influenced by the expected era of consolidation. John Bucksbaum, CEO from 1999 – 2008, proclaimed: “For 40 years, Martin and Matthew Bucksbaum helped define the retail landscape in this country by developing regional shopping malls throughout America. We recognized in 1990 that our business was going to be changing from one of development to one of acquisition, given that most of the needed development had already taken place.”

With several equity mall REITs in place following the IPO wave, acquisition activity exploded as the major players

---

Influences that Lead to the 1990s’ Malls “IPO wave”

- The 1993 Federal Revenue Reconciliation Act, which amended the “Five or Fewer” rule and made REIT investments more accessible to institutional investors.
- An innovative tax sheltering structure originated in the 1992 Taubman Centers REIT IPO. The “UPREIT” structure permitted real estate owners to access the public markets without realizing taxable gains on the assets they contributed to the REIT.
- The collapse of the Savings and Loan industry (a major real estate capital provider in the 1980s), which created severe limitations on the availability of real estate financing.
- The mall industry’s lifecycle, which evolved from an expansionary phase into a consolidation phase. With the majority of retail tenants having national platforms, consolidation of mall ownership was a logical step for the industry’s evolution because economies of scale advantages could be achieved.

---

chased scale advantages. Two significant players emerged: Simon Property Group (“SPG”) and GGP.

**Exhibit 1**

**US Mall Ownership: Industry Leaders**

<table>
<thead>
<tr>
<th></th>
<th>Malls</th>
<th>Enterprise Value</th>
<th>Malls</th>
<th>Enterprise Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>GGP</td>
<td>21</td>
<td>$1,055</td>
<td>135</td>
<td>$13,511</td>
</tr>
<tr>
<td>SPG</td>
<td>57</td>
<td>2,294</td>
<td>175</td>
<td>20,043</td>
</tr>
<tr>
<td>Macerich</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\[ a \] Enterprise Value as defined by GAAP; pro-rata share of JV debt is excluded. Shown in millions.

\[ b \] Macerich completed an initial public offering in 1994 with 15 malls.

**2004: A Historic Year for General Growth**

In 2004, 50 years after the Bucksbaums first entered the mall business, General Growth embarked upon the most ambitious acquisition year in the company’s history. In the first 8 months of 2004, GGP acquired 8 malls for $1.9 billion, including the renowned Grand Canal Shoppes at the Venetian Casino in Las Vegas.\(^7\)

**Exhibit #2**

**Acquisitions since 1993 IPO**

In November of the same year, GGP completed a truly transformational transaction: the all-cash acquisition of The Rouse Company for approximately $12.7 billion. Rouse was a venerable and diversified REIT with over 9 million square feet of office and industrial assets and master planned communities (“MPCs”) in various stages of development over 26,000 acres, but the core assets of the portfolio were its 37 regional malls located in 22 different states.\(^8\)

From a retail perspective, Rouse had a premier portfolio comprised of high-quality mall assets that would help enhance the GGP portfolio. Mall occupancy and sales per square foot are two metrics commonly used as benchmarks for assessing mall quality; the Rouse portfolio had slightly better occupancy and significantly better sales per square foot.

\[\begin{array}{c|c|c}
\text{Occupancy} & \text{Sales PSF} \\
\hline
\text{GGP} & 90.7\% & $351 \\
\text{Rouse} & 92.2\% & $426 \\
\text{Premium} & 1.7\% & 21.4\%
\end{array}\]

\(^8\) General Growth Properties, 2004 Annual Report.
### Combined Company

#### GGP
- 151 Regional Malls
- 180 Million Square Feet

#### Rouse
- 37 Regional Malls & 6 Mixed Use Projects
- 40 Million Square Feet

#### Combined Company
- Master Planned Communities in Columbia, MD; Summerlin, NV; Houston, TX
- 188 Regional Malls
- 220 Million Square Feet of Retail
- Master Planned Communities
- 9 Million Square Feet of Office & Other
- 44 States
### Highlights of the Combined Mall Portfolio

**Exhibit #5**

<table>
<thead>
<tr>
<th>General Growth Malls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ala Moana: Honolulu, HI</td>
</tr>
<tr>
<td>Providence Place: Providence, RI</td>
</tr>
<tr>
<td>Stonebriar Centre: Dallas, TX</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>The Rouse Company Malls</th>
</tr>
</thead>
<tbody>
<tr>
<td>Natick Mall: Boston, MA</td>
</tr>
<tr>
<td>Grand Canal Shoppes: Las Vegas, NV</td>
</tr>
<tr>
<td>Saint Louis Galleria: St. Louis, MO</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Faneuil Hall: Boston, MA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beachwood Place: Cleveland, OH</td>
</tr>
<tr>
<td>Park Meadows Mall: Denver, CO</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Harborplace: Baltimore, MD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mizner Park: Boca Raton, FL</td>
</tr>
<tr>
<td>WaterTower Place: Chicago, IL</td>
</tr>
</tbody>
</table>
Additionally, Rouse owned assets in markets GGP coveted, solidifying a national footprint GGP had been building over the last decade. CEO John Bucksbaum:

*Our enthusiasm for this deal gets greater with each passing day… Retailers expand in markets where they can achieve productivity. By providing them with productive locations, we will get a disproportionate share of new store openings, and this then benefits all of our constituencies. Following the Rouse transaction, GGP will be represented in 44 of 50 states. We will have 69 centers, in 21 of the top 25 MSA markets. With 60 of these centers being in the top 17 markets. As S&P noted, we are in a national business, and we have created a national platform. This platform serves the needs of our retailers.*

General Growth acquired The Rouse Company by winning a private auction process. In total three companies were invited to submit bids, with Simon Property Group and Westfield American Trust as the other competitors. In the end GGP was the only bidder as both Simon and Westfield declined (after having requested additional due diligence time).

Rouse accepted GGP’s bid and explained in its proxy statement: “Although each of Company A [Simon Properties] and Company B [Westfield] had requested additional time to evaluate Rouse and to present its best proposal, our board considered that there were significant risks in extending the sale process.”

Many industry observers suspect that Rouse’s decision to accept GGP’s offer was facilitated by the all-cash nature of the offer and a certainty of closing supported by significant financing commitments from lead banks including Lehman Brothers, Wachovia, Bank of America, and Credit Suisse First Boston. In total, the banks extended $9.75 billion

---

in commitments to fund the acquisition.

**Exhibit #6**

Estimated Sources and Uses Statement for the Rouse Acquisition
November 12, 2004 (000s)

<table>
<thead>
<tr>
<th>Sources</th>
<th>Warrants</th>
<th>Price</th>
<th>Available Proceeds</th>
<th>Libor Spread</th>
<th>Maturity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Warrants Offering</td>
<td>15,900</td>
<td>$32.23</td>
<td>$512,600</td>
<td>$512,600</td>
<td></td>
</tr>
<tr>
<td>Rouse Cash on Hand</td>
<td></td>
<td></td>
<td>238,006</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Secured Mortgage Refinance Proceeds at Closing</td>
<td>2,040,100</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12-Month Bridge Facility</td>
<td>1,145,000</td>
<td>1,145,000</td>
<td>2.00%</td>
<td>11/12/2005</td>
<td></td>
</tr>
<tr>
<td>Revolving Credit Facility</td>
<td>250,000</td>
<td>500,000</td>
<td>2.25%</td>
<td>11/12/2007</td>
<td></td>
</tr>
<tr>
<td>Three-Year Term Loan A</td>
<td>3,650,000</td>
<td>3,650,000</td>
<td>2.25%</td>
<td>11/12/2007</td>
<td></td>
</tr>
<tr>
<td>Four-Year Term Loan B</td>
<td>2,000,000</td>
<td>2,000,000</td>
<td>2.50%</td>
<td>11/12/2008</td>
<td></td>
</tr>
<tr>
<td>Total Sources</td>
<td>$9,835,706</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th>Assumed Liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity Purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of Outstanding Rouse Shares</td>
<td>103,718</td>
<td>$65.21</td>
</tr>
<tr>
<td>Rouse’s Extraordinary Dividend Paid Prior to Closing</td>
<td>103,718</td>
<td>$2.29</td>
</tr>
<tr>
<td>Rouse’s Closing Dividend</td>
<td>103,718</td>
<td>$0.29</td>
</tr>
<tr>
<td>Total Consideration</td>
<td></td>
<td>$67.79</td>
</tr>
<tr>
<td>Assumption of Rouse’s Historical Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumption of Rouse’s Extraordinary Dividend Paid Prior to Closing</td>
<td></td>
<td>4,636,072</td>
</tr>
<tr>
<td>Assumption of Rouse’s Closing Dividend</td>
<td></td>
<td>849,791</td>
</tr>
<tr>
<td>Total Uses</td>
<td>$9,835,706</td>
<td>$9,835,706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Uses</th>
<th>Assumed Liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase of Outstanding Rouse Shares</td>
<td>103,718</td>
<td>$65.21</td>
</tr>
<tr>
<td>Rouse’s Closing Dividend</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumed Rouse Debt</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Assumed Rouse Liabilities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employee and Related Costs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Legal, Investment Advisory, Accounting and Other Fees</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Uses</td>
<td>$9,835,706</td>
<td>$9,835,706</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Warrants Offering</th>
<th>Transaction Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>$512,600</td>
<td>$12,744,163</td>
</tr>
<tr>
<td>Transaction Price of the Rouse Company</td>
<td>$12,744,163</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>% of Equity in Transaction</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.02%</td>
</tr>
</tbody>
</table>

General Growth issued equity warrants to supplement the acquisition financing, granting existing stock and OP unit holders the right to purchase their pro rata share of approximately $500 million of new common shares. By the time the acquisition closed on November 12, 2004, GGP had raised over $2 billion of incremental financing proceeds from newly placed secured mortgages on unencumbered assets and existing loan re-financings. The $2 billion dollars of proceeds dramatically reduced the bridge loan commitment from $3.1 billion to $1.1 billion at closing.
With just $512.6 million in equity contributed, the acquisition was funded almost exclusively with debt and raised the combined company’s pro-forma leverage from 54% to over 71%.

Exhibit #7

GENERAL GROWTH PROPERTIES, INC.
UNAUDITED PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET
June 30, 2004
As reported in the 10/25/2004 General Growth Properties 8-K
(000s)

<table>
<thead>
<tr>
<th></th>
<th>General Growth Properties</th>
<th>The Rouse Company</th>
<th>Pro-Forma Adjustments</th>
<th>Pro-Forma Consolidated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>$1,488,769</td>
<td>$648,655</td>
<td>$502,071</td>
<td>$2,639,495</td>
</tr>
<tr>
<td>Building</td>
<td>9,529,278</td>
<td>5,433,127</td>
<td>4,086,972</td>
<td>19,049,377</td>
</tr>
<tr>
<td>Less Accumulated Depreciation</td>
<td>-1,257,898</td>
<td>-1,076,387</td>
<td>1,076,387</td>
<td>-1,257,898</td>
</tr>
<tr>
<td>Development in Progress</td>
<td>237,832</td>
<td>224,732</td>
<td></td>
<td>462,564</td>
</tr>
<tr>
<td>Net Property and Equipment</td>
<td>$9,997,981</td>
<td>$5,230,127</td>
<td>$5,665,430</td>
<td>$20,893,538</td>
</tr>
<tr>
<td>Inv. In Unconsol Affil.</td>
<td>$755,816</td>
<td>$587,763</td>
<td>$541,784</td>
<td>$1,885,363</td>
</tr>
<tr>
<td>Inv. in Land and Land Held for Development and Sale</td>
<td>455,494</td>
<td>601,037</td>
<td>1,056,531</td>
<td></td>
</tr>
<tr>
<td>Properties Held for Sale</td>
<td>8,241</td>
<td></td>
<td>8,241</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>15,265</td>
<td>36,220</td>
<td>51,485</td>
<td></td>
</tr>
<tr>
<td>Tenant Accounts Receivable, net</td>
<td>150,074</td>
<td>67,147</td>
<td>217,221</td>
<td></td>
</tr>
<tr>
<td>Other Assets</td>
<td>229,065</td>
<td>584,566</td>
<td>855,445</td>
<td></td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td><strong>$11,148,201</strong></td>
<td><strong>$6,969,558</strong></td>
<td><strong>$6,850,065</strong></td>
<td><strong>$24,967,824</strong></td>
</tr>
<tr>
<td>Mortgage Notes and Other Debt Payable</td>
<td>$8,171,891</td>
<td>$4,564,916</td>
<td>$6,934,726</td>
<td>$19,671,533</td>
</tr>
<tr>
<td>Accounts Payable and Accrued Expense</td>
<td>485,608</td>
<td>814,745</td>
<td>1,005,236</td>
<td>2,305,589</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td><strong>$8,657,499</strong></td>
<td><strong>$5,379,661</strong></td>
<td><strong>$7,939,962</strong></td>
<td><strong>$21,977,122</strong></td>
</tr>
<tr>
<td>Preferred Units</td>
<td>$403,506</td>
<td>$403,506</td>
<td></td>
<td>$403,506</td>
</tr>
<tr>
<td>Common Units</td>
<td>407,566</td>
<td>-21,880</td>
<td>385,686</td>
<td></td>
</tr>
<tr>
<td>Stockholder's Equity</td>
<td>1,679,630</td>
<td>1,589,897</td>
<td>-1,068,017</td>
<td>2,201,510</td>
</tr>
<tr>
<td><strong>Total Liabilities and Stockholders Equity</strong></td>
<td><strong>$11,148,201</strong></td>
<td><strong>$6,969,558</strong></td>
<td><strong>$6,850,065</strong></td>
<td><strong>$24,967,824</strong></td>
</tr>
</tbody>
</table>

Non-Reported Pro Forma Analysis

<table>
<thead>
<tr>
<th></th>
<th>Pro-Forma</th>
<th>Pro-Forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Equity &amp; Common Units</td>
<td>$8,105,691</td>
<td>$512,600</td>
</tr>
<tr>
<td>Preferred Units</td>
<td>403,506</td>
<td>403,506</td>
</tr>
<tr>
<td>Debt Including Pro-Rata Share of Joint Ventures*</td>
<td>10,027,430</td>
<td>5,404,906</td>
</tr>
<tr>
<td><strong>Total Market Capitalization</strong></td>
<td><strong>$18,536,627</strong></td>
<td><strong>$5,404,906</strong></td>
</tr>
</tbody>
</table>

| Leverage | 54.1% | 71.3% |

*GAAP accounting principals include the pro-rata share of unconsolidated joint venture debt as an offset in the net asset account of investment in Unconsolidated Affiliates.
GGP’s CFO assured investors that the company’s balance sheet had the capacity to operate at this leverage level and that the company would de-lever in the coming years through a combination of four options:

1) increasing asset-level NOI through remerchandising at the Rouse malls,
2) the sale of non-core assets like the Rouse office and industrial portfolios,
3) preferred equity issuance, and
4) strategic joint venture equity transactions for wholly owned assets.

Freibaum referenced a similarly leveraged transaction in 1995 when General Growth formed a joint venture to purchase the Homart Development Corporation from Sears, Roebuck & Company, increasing the company’s leverage to 70%. He explained:

“Our transaction financing will allow us to reduce our initial and temporarily higher debt levels in a gradual and orderly manner. Despite reduced estimated interest coverage of approximately 1.6 times for the first full year after closing, we will work diligently to bring our coverage ratio back to our long term goal of over 2 times, as soon as possible.

2005-2006: Secured Mortgages and Increasing Debt

Secured Mortgage Refinancing

General Growth’s offer to purchase Rouse was backstopped by a $9.75 billion credit facility. The initial structure of the facility included $3.1 billion in short-term bridge financing due in one year, comprising 31.7% of the entire facility. General Growth successfully repaid this portion of acquisition capital with $2 billion in secured mortgage refinancings at the November 12, 2004 closing and additional secured mortgage refinancing activity over the next eight months.

The availability of project-level secured mortgage financing allowed GGP to absorb the Rouse acquisition and replace the acquisition financing while maintaining its higher leverage capital structure. General Growth’s balance sheet had a leverage ratio that was approximately sixteen percentage points higher than its peers as of year-end 2004.

<table>
<thead>
<tr>
<th>December 31, 2004 Leverage Ratios</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Growth</td>
</tr>
<tr>
<td>Simon Property Group</td>
</tr>
<tr>
<td>Green Street Mall REIT Average</td>
</tr>
</tbody>
</table>

Source: Green Street Advisors: “Mall REITs: 2005 Annual”

12 The portfolio was named after the cross streets of the original Sears Tower in Chicago: Homan and Arthington.
While it may seem as if the generation of $3.1 billion in secured mortgage financing proceeds was a major accomplishment, in reality this was business as usual at General Growth. Frequent mortgage refinancings were considered to be a central part of the company’s “Growth Strategy”. This slide is taken from the company’s presentation at the Deutsche Bank 2004 Real Estate Outlook Conference on January 13, 2004.

By the first quarter of 2006, General Growth had managed to recapitalize the entire Rouse acquisition facility. However, its overall debt levels had not declined at all, as the company continued to utilize its growth strategy of “frequent refinancings” and “excess proceeds”. In fact, GGP’s debt level would increase by $4 billion between November 2004 and the end of calendar year 2008.\(^{13}\)

As early as the first quarter of 2005, Freibaum informed investors that the company was not focused on reducing the company’s debt and acknowledged the burden of a heavy development pipeline:

\begin{quote}
At this point we have so much development, redevelopment activity, which is so profitable, we’re actually not generating any excess cash flow to reduce the debt level. As we said when we decided to buy Rouse … the most effective way for us to de-lever is not to pay down the nominal amount of the debt but to keep increasing the NOI so that the nominal debt, even if it stays the same, becomes more conservative on a relative loan to value basis … we may not dramatically decrease the nominal debt level, [but] we’re very confident that the relative debt to the value of the portfolio as the income goes up will drop.\(^{14}\)
\end{quote}

\(^{13}\) General Growth Properties, Quarterly Supplemental Financial Information Reports

General Growth did increase the Retail and Other NOI segment on a trailing twelve-month basis from the fourth quarter of 2005 (the first full year of combined GGP/Rouse operations) to the fourth quarter of 2008 by 21%. However, that gain was offset by the corresponding 21% increase in debt ($4 billion) over that same period.

A commonly used ratio in real estate finance to analyze leverage is the debt yield which is calculated as NOI / debt. General Growth’s debt yield ratio improved by nearly 50 bps, but the fact remained that the peak 9.5% debt yield ratio at the end of 2006 (post-Rouse acquisition) was materially less than the company had pre-Rouse and also less than Simon’s (General Growth’s best comparable) debt yield ratio from 2003-2008. The company was generating NOI growth, but leverage was not materially decreasing.

As reported on the May 5, 2005 conference call, following the Rouse Acquisition, GGP reported net operating income for the master planned community (MPC) business separately from the mall and office business lines. GAAP accounting allocates a higher costs basis to master planned communities than would have been attributable to these assets under Rouse’s ownership, making the net operating income less relevant as a benchmark for cash flow and value.

Any mall cash-flow metric should be analyzed on a trailing twelve-month basis to offset quarterly inconsistency created by seasonality.

The illustrated debt yield calculation does not incorporate: third-party management revenue, corporate expenses, or any value to the MPC segment which had an appraised value greater than $3 billion.

The sudden decline and subsequent recovery in 2007 relates to $1.05 billion of assumed debt from an acquisition early the third quarter of 2007: the trailing twelve-month NOI in the numerator does not reflect the acquisition until the second quarter of 2008.

---

15 As reported on the May 5, 2005 conference call, following the Rouse Acquisition, GGP reported net operating income for the master planned community (MPC) business separately from the mall and office business lines. GAAP accounting allocates a higher costs basis to master planned communities than would have been attributable to these assets under Rouse’s ownership, making the net operating income less relevant as a benchmark for cash flow and value.

16 Any mall cash-flow metric should be analyzed on a trailing twelve-month basis to offset quarterly inconsistency created by seasonality.

17 The illustrated debt yield calculation does not incorporate: third-party management revenue, corporate expenses, or any value to the MPC segment which had an appraised value greater than $3 billion.

18 The sudden decline and subsequent recovery in 2007 relates to $1.05 billion of assumed debt from an acquisition early the third quarter of 2007: the trailing twelve-month NOI in the numerator does not reflect the acquisition until the second quarter of 2008.
2006-2008: Continued Growth in Debt

The growth in debt from 2006-2008 was derived from three primary uses of capital:

A. a robust development pipeline which peaked at $2 billion in 2007,
B. $2.25 billion purchase of a joint-venture partner’s interest in a mall portfolio, and

A. Development: Redefining the Mall – Mixed-Use, Entertainment and Lifestyle

As the era of regional mall consolidation began to fade, Bucksbaum saw mixed-use development as a new frontier of growth for the company. The newly acquired MPCs in Las Vegas, Columbia and Houston reaffirmed this vision:

I am extremely bullish about our potential to create ongoing additional value at our centers by adding new real estate components to our land ... We are learning a great deal from our [master-planned] community development projects and we are transferring that knowledge to our retail properties ... mixed-use and higher densification of our land that will be the driving force behind GGP for the next 25 years. We have the ability to create enormous additional value right from within the properties we currently own.  

Contrary to the views of some industry observers and analysts, the MPC business was considered a core asset by management and an integral part of the company’s future. In the mid-2000s, General Growth acted on Bucksbaum’s vision by embarking on an ambitious development program that incorporated mixed-use, entertainment and lifestyle concepts at the company’s malls.

---

19 General Growth Properties, Third Quarter Earnings Conference Call, November 1, 2005.
In the same quarter as the announcement of the Rouse acquisition, GGP had a development pipeline that included 5 new mall developments with extensive lifestyle components and 13 redevelopment projects featuring lifestyle additions to malls. One year later, Chief Operating Office Bob Michaels referred to the company’s development pipeline as “the busiest it has been since we became a public company in 1993.” According to General Growth’s quarterly supplemental filings, the development budget increased precipitously in 2005.

By focusing its energies on its significant development pipeline, the company was turning the page on acquisitions and looking internally for growth. As Bucksbaum said in 2007,

“Our redevelopments, new developments, alternative income sources, and other internally generated growth prospects remain healthy and strong. Coming off an era of growth by acquisition, we are now in a period of organic growth.”

Development projects were viewed as an accretive alternative to acquisitions given the current capitalization rate (expected return on in-place income of an acquisition) environment. Said Freibaum in 2005:

“It’s hard to imagine when you have the opportunity to invest $2 billion in projects over the next four years that will generate at least, on average, high single digits [returns], why you would invest at 5%...

---

when you’re borrowing at 5.8%. So, at least in terms of the present and the foreseeable future, for that reason, I would expect less acquisitions.\textsuperscript{21}

Unfortunately for the company, some of these development projects produced returns well below underwritten projections and resulted in material losses. As the economy began to affect the viability of development projects, the company began to take significant impairment charges on select projects: $116.6 million in 2008 and $1.2 billion in 2009.\textsuperscript{22} Examples of impaired developments include:

- **Nouvelle at Natick** – A twelve-story, 215-unit residential condominium tower located on the site of a dominant regional mall in the Boston MSA. The project included a 1.2 acre rooftop garden and had high-end amenities, but poor sales eventually led to an auction of 178 units at 36% - 64% below the original list pricing.\textsuperscript{23} The company recorded impairment charges of $40.3 million in 2008 and $55.9 million in 2009.

- **Elk Grove Promenade** – 1.1 million-square-foot ground-up regional mall development located south of Sacramento, California. The project was halted in 2009 and the company recorded an impairment charge of $175.3 million.

- **The Shops at Summerlin Centre** – 1.5 million square foot regional mall development in the company’s MPC of Summerlin, Nevada near Las Vegas. The project was halted in 2009 and the company recognized an impairment charge of $176.1 million.

**B. The Homart I JV Partnership Interest Purchase**

On July 9, 2007, General Growth acquired the remaining 50% interest in the GGP/Homart I portfolio. The portfolio was comprised of twenty-two malls and was owned by a joint venture of GGP and the New York State Common Retirement Fund (“NYSCRF”). The joint venture agreement contained a conversion exchange right for any of the co-investors to exchange the value of their ownership interests, as defined by a valuation formula, for shares of GGP common stock or an equivalent cash sum, at GGP’s election. NYSCRF exercised this option and GGP elected to buy its partner out with cash.

\textsuperscript{22} General Growth Properties, December 31, 2008 and December 31, 2009 Form 10-Ks.
Just three months prior to the purchase, GGP’s stock traded for an all-time high of $67 per share, but by July of 2007 the price had trended down to the low $50s. GGP management believed this decline contradicted the company’s financial results and position.

Bucksbaum commented:

The bad news is that our stock declined by almost 18% during the quarter and was down an additional 9% for the month of July. Something is wrong. We have strong earnings, good operating metrics, and an exciting future full of new developments, redevelopments, international activity, and urban opportunities. Albeit, we need a strong consumer to continue spending, but whenever there has been a bet against the consumer, it has generally been wrong.²⁴

Given management’s assertion that the company’s shares were mispriced, GGP’s decision to fund NYSCRF’s conversion exchange right in cash rather than shares is not surprising.

The total cost of the buyout was $2.25 billion, comprised of $1.2 billion in cash and $1.05 billion in assumed debt.²⁵ The cash portion of the acquisition was funded almost exclusively with new debt:

- new $750 million one-year bank loan with a rate of LIBOR + 140 bps, and
- five-year $254 million interest-only seller-financing note secured by GGP’s interest in another joint venture with NYCRSF, GGP/Homart II.

²⁴ General Growth Properties, First Quarter Earnings Conference Call, August 1, 2007.
²⁵ General Growth Properties, December 31, 2007 Form 10-K.
C. Treasury Stock Repurchases

General Growth repurchased $280.5 million of its outstanding common shares between 2005 and 2007. The last repurchase coincided with the company’s election to fund the acquisition of the Homart JV interest in June of 2007 when the company repurchased 1.8 million shares at an average price of $52.93.\(^{26}\)

In an interview with the authors of this report in October of 2011, John Bucksbaum looked back at this period and lamented:

\begin{quote}
The uses outstripped the sources, and [the company] was dependent upon the continued excess proceeds from refinancings to take care of all of the costs associated with the new and redevelopment pipeline…. [Property Cash flow] didn’t generate enough money after debt service to justify the company’s expenditures, but it was supplemented by the refinancings until the music stopped.

There is no question we treated equity too preciously … we went public in 1993 [because] we foresaw consolidation coming in the industry and that we would need access to large pools of capital and the public markets would provide that access…. And ironically enough we didn’t use the public markets because the debt market was so available and the cost of money in the debt market was cheaper.\(^{27}\)
\end{quote}

\(^{26}\) General Growth Properties, First Quarter Earnings Conference Call, August 1, 2007.

\(^{27}\) John Bucksbaum, interview by authors, Chicago, IL, October 28, 2011.
Simon vs. GGP - Capital Markets Strategy

General Growth and Simon Properties were the dominant players in the regional mall business in the early to mid-2000’s. As of year-end 2004, GGP had 188 regional malls and Simon had 172.

Green Street Advisors, an independent research and consulting firm, ranks each US regional mall with a letter grade. The chart on the right indicates that GGP and SPG controlled nearly half of all the US regional malls graded B or better as of year-end 2004.\(^{28}\)

Higher quality malls tend to have higher sales per square foot. Intuitively, landlords should be able to charge higher rents to tenants with higher sales volume and generate incremental cash flow. Prior to the Rouse acquisition in late 2004, Simon’s malls averaged nearly a $50 premium spread in average sales per square foot compared to General Growth.

\(^{28}\) Green Street Advisors, “Mall REITs 2005 Annual,” April 12, 2005.
After the Rouse acquisition was completed, GGP and Simon each had a portfolio with comparable metrics and a comparable share of the aggregate A & B malls in the United States. Both companies had additional non-regional mall assets that created differentiation, but their core business and the lion share of their assets were regional malls. The truly differentiating characteristic for these companies was their sources of capital.

Large regional mall owners have traditionally had three categories of financing available to them:

- **Secured Mortgage Loans:**
  A security interest in a property pledged as collateral to procure financing proceeds. In standard secured mortgages, if a borrower fails to pay scheduled debt service payments the lender can foreclose on the pledged collateral asset. Additionally, many secured mortgage loans are non-recourse, giving the borrower the option to simply transfer title of the asset to the lender if the asset’s value falls below the outstanding loan.

- **Unsecured Corporate Bonds:**
  Bonds issued by real estate companies are a form of corporate debentures and are typically publicly traded. In a bankruptcy event, bondholders’ asset claims are subordinate to secured claims on assets such as the liens held by secured mortgage loans. Most bond offerings impose covenant restrictions on borrowers because of this subordination risk. Covenant restrictions can include limitations on leverage, minimum interest-coverage ratios and maintenance of an unencumbered asset pool.

  Rating agencies like Moody’s, S&P and Fitch evaluate both the credit worthiness of the borrower and the credit enhancement features of the covenant restrictions to rate the offering. Bond pricing is heavily correlated with the rating assigned by the agencies.

- **Unsecured (Syndicated) Bank Debt:**
  Similar to public bonds, bank debt is unsecured (and therefore subordinate to secured claims on assets) and features covenant restrictions. The central differences are that bank debt is privately placed, in contrast to the registration costs of the regulatory filings required in a public bond offering, and are often customized as a credit facility to facilitate short-term borrowing flexibility and
liquidity. Syndicated bank debt is funded by a group of banks whose commitments are referred to as participations. Lender participations are not publicly traded and are less reliant on rating agency approval.

Both GGP and Simon took advantage of their high-quality portfolios and utilized secured mortgage loans as a source of capital. Quality regional malls are an attractive asset for secured lenders because of the stable cash flow provided by long-term leases and the credit worthiness of national chain stores.

While GGP and Simon both utilized the syndicated bank debt market, only Simon was an active issuer of public bonds. As a public bond issuer, Simon was required to maintain a significant pool of unencumbered assets in compliance with its loan covenants. General Growth, on the other hand, rarely issued unsecured public bonds, and allocated the majority of its debt capital to secured mortgages.

From 2003 – 2008, Simon’s unsecured debt (public bonds and bank debt) comprised 50-60% of its total debt. While GGP’s unsecured debt (comprised of mostly bank debt) was never more than 30% of its total debt.

Exhibit #16

<table>
<thead>
<tr>
<th>Unsecured Debt as a Percentage of Total Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>GGP</td>
</tr>
<tr>
<td>10%</td>
</tr>
</tbody>
</table>

Exhibit #16: Unsecured Debt as a Percentage of Total Debt
GGP’s preference for secured mortgages was a strategic decision. Freibaum explained:

*We financed the company with what … will give us the lowest cost of debt. It’s not that we like secured debt, over unsecured debt. It’s that secured debt is substantially cheaper, as long as you don’t go above the tranches that are priced very tightly by the market today. So we get the cheapest possible debt we can in the form of secured debt.*

In fact, from 2003-2008, GGP appeared to have a significant debt cost advantage. From the first quarter of 2003 through third quarter of 2004, Simon was paying a significant premium to General Growth. GGP’s leverage spiked to 70% by the end of 2004 with the highly levered Rouse transaction, but remarkably, the weighted average interest rate of GGP’s loan portfolio remained below Simon’s loan portfolio.

GGP took advantage of the strong appetite secured debt that was prevalent in the markets throughout the early and mid-2000s. During this time, a CMBS loan on a quality regional mall asset was likely to have been priced significantly inside of an unsecured bond transaction of similar size. This discrepancy may have resulted from a few reasons: 29

- Secured debt will typically provide some amortization (although a number of GGP’s secured loans were interest only).

---

29 Andrew Reiken, interview by authors, Chicago, IL, November 5, 2011.
The security collateral interest on a specific property puts secured creditors at the top of the “food chain” in a bankruptcy (a point that we will examine in depth later on).

CMBS loans are priced based mainly on the quality and cash flow of the underlying collateral versus the underlying corporate credit profile of the sponsor and, as a result, larger institutional-quality assets such as Class A malls receive high visibility and “full credit” financing (i.e., the full strength of the real estate, financial, and credit aspects of an asset are considered) under a secured debt structure.

Conversely, unsecured bonds are priced based on the corporate credit strength of the issuer relative to the unsecured bond marketplace, which contains issuers of every type of industry. As a result, the quality of the underlying assets that a company like Simon owns may not get the full attention of the marketplace. Bond traders are reviewing credit ratings and balance sheet fundamentals and rarely underwrite property- and asset-level granularity during due diligence.

Simon, with its large quantities of unsecured debt relative to GGP, may have been irrationally overcharged in the market and paid higher debt service costs in order to maintain its preferred capital structure. Of course, there may be other explanations with regard to the pricing discrepancy. These include:

Some Financial Theory

An investment in a portfolio of assets offers greater diversification; therefore, a portfolio investment should have lower volatility than a single-asset investment. In the context of extending credit, the risk of default for a loan collateralized by single asset loan should be higher than a loan collateralized by a pool of assets.

Even if the assets in a pool are highly correlated, the volatility of the pool should still be less than a single asset.

To simplify the scenario, assume there are \( N \) identically distributed assets (i.e., the volatility of each asset, \( \sigma_i \), is the same) and any two assets are correlated with a correlation coefficient of \( \rho \). Therefore, the volatility of the portfolio is:

\[
\sigma_p = \frac{\sigma_i}{\sqrt{N}} \sqrt{(1 - \rho) + \rho N}
\]

Consequently, the pricing (as measured by the interest rate) on a loan secured by a single property ought to be higher – for a given leverage ratio – than that secured by a pool of properties. In the context of secured vs. unsecured lending, the single-asset loan represents the secured lending approach while the pool represents the unsecured approach.
Variable-Rate Debt Exposure

Fixed-rate debt carries a premium because of the transfer of interest rate risk from the borrower to the lender. With variable-rate debt, the borrower is exposed to interest rate fluctuations. If a borrower accepts the risk inherent in variable-rate debt, its cost of debt may be artificially lower than a comparable borrower utilizing fixed-rate debt.

Variable-rate debt exposure would have been particularly beneficial to GGP in the low-rate environment of the 2000s and may partially explain the weighted average interest rates of the two companies. However, the relevance of this explanatory variable waned as GGP converted the variable-rate Rouse Acquisition facility to secured mortgage debt from 2005-2007. By the second quarter of 2007, GGP had less variable-rate debt than Simon, significantly more leverage and a lower weighted-average interest rate.

Loan Term/ Maturity

Both the General Growth and Simon debt portfolios had weighted average maturities that ranged from four to five years between 2003 and 2008. However, GGP’s preference for frequent refinancings manifested itself in significantly higher allocations to near-term 3-, 4-, and 5-year maturity allocations. On the contrary, SPG appears to have incorporated longer-term debt obligations with comparably larger allocations to the 8-, 9-, and 10-year maturities. An illustration of the two companies’ maturity allocations can be seen on the following page.
Just like variable-rate debt, financing assets with shorter maturity terms can generate a lower cost of capital as the borrower accepts the risk of rising interest rates in the near term.

*Exhibit #20*

<table>
<thead>
<tr>
<th>General Growth Properties</th>
<th>Annual Debt Maturities as a % of Total Debt 2003-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thereafter</strong></td>
<td><img src="image" alt="Graph" /></td>
</tr>
</tbody>
</table>

- GGP 2008 Maturity
- GGP 2007 Maturity
- GGP 2006 Maturity
- GGP 2005 Maturity
- GGP 2004 Maturity
- GGP 2003 Maturity

*Exhibit #21*

<table>
<thead>
<tr>
<th>Simon Property Group</th>
<th>Annual Debt Maturities as a % of Total Debt 2003-2008</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Thereafter</strong></td>
<td><img src="image" alt="Graph" /></td>
</tr>
</tbody>
</table>

- SPG 2008 Maturity
- SPG 2007 Maturity
- SPG 2006 Maturity
- SPG 2005 Maturity
- SPG 2004 Maturity
- SPG 2003 Maturity
IMPACT OF THE CREDIT CRISIS

The combination of low interest rates, government homeownership policies, and lax lending standards facilitated an unsustainable increase in housing prices and ultimately the onset of the subprime credit crisis. The peak and subsequent decline of the housing market would highlight some significant risks taken by GGP, including its venture into MPCs and its use of CMBS as a major funding source.

Housing Decline
With the acquisition of Rouse, GGP had acquired multiple MPCs that contained residential assets, including land for future development. By retaining these assets, the company exposed itself to losses associated with the housing industry. The value of the housing development business was estimated to be $3.9 billion in 2005. In 2008, Green Street would estimate the value of the community to be roughly $2.3 billion.

The Case-Schiller Index shows the decrease in housing prices began in the summer of 2006. A key asset in GGP’s MPC portfolio was the Summerlin development, located in the western suburb of Las Vegas, NV. During the housing market crash, the Las Vegas metropolitan area was devastated. GGP’s share price mirrored the decline in housing prices with a slight delay.

In addition to being affected by the direct decline in home values, the opacity of GGP’s housing exposure added both complexity and risks, creating a major deterrent for both potential REIT investors and creditors during this period. While the MPC business only represented 10% of GGP, investors concerned about housing fled GGP disproportionately.
Although Las Vegas was a microcosm of the difficulties within the housing industry, home values had declined on a national basis as well. The collapse in the entire housing market also would reflect upon GGP as evidenced by the chart below that outlines the Case-Schiller indices for the hard-hit, so-called “sand” markets: Phoenix, Los Angeles, Las Vegas, and Miami as well as Case-Schiller’s Composite Index for the twenty largest markets.

Exhibit #22

Case-Schiller Indices for Major "Sand" Metropolitan Areas

[Graph showing Case-Schiller indices for major metropolitan areas with lines representing Phoenix, Los Angeles, Top 20 Markets, Las Vegas, and Miami.]
Issues in the Structured Finance World

GGP financed itself with a significant amount of CMBS and the contagion among all structured-finance products would end up constricting this source of funding in the late 2000's. Additionally, the CMBS structure would prove to be an inflexible structure for debt negotiations.

In early 2007, spreads in the RMBS market widened in the face of rising residential delinquencies and concerns about recent underwriting practices. As the full extent of the problems within the securitization model became clear, including the complicity of rating agencies, reverberations occurred across the structured-finance industry.

On July 17, 2007, Bear Stearns announced that the Bear Stearns High-Grade Structured Credit hedge fund had lost approximately 90% of its value due to losses in RMBS-related securities. Concurrent with this loss, spreads in AAA CMBS began to widen. This was significant because up until then, only the spreads on lower tranches of CMBS were affected.

During the second half of 2007, CMBS originations dropped off significantly, an indication of declining issuance. The boom and bust of the market was substantial: the CMBS market had grown from $8 billion of issuance in the first quarter of 2000 to $73 billion in the second quarter of 2007 and crashed to $6 billion of issuance in the through the first three quarters of 2008.
In early November 2007, Freibaum maintained his optimism about the CMBS market. “At some point in the first half of 2008 we will see an improvement in the historical CMBS market and much more competitive spreads.” He pointed to the small amount of delinquencies within commercial mortgage backed securities, stating, “[they’re] infinitesimal. They’re so tiny. They’re not even a basis point.”

His optimistic assessment was a commonly held perspective within the commercial real estate industry. Many practitioners proclaimed that, in contrast to the RMBS and CDO markets which had already faltered, the low CMBS delinquency rate was indicative of the current and future strength of the CMBS market. However, the small amount of delinquencies within CMBS turned out to be a lagging indicator of market conditions and not a signal of strength. Nevertheless, GGP should have been more concerned about the changing market conditions given the company’s reliance on CMBS capital.

Exhibit #24

On December 17, 2007, Bloomberg reported that Centro Properties Group, which owned 700 U.S retail centers, would suspend its dividend because there were no “traditional sources of funding.” The CMBS AAA spread in December 2007 rose to 127

---

30 General Growth Properties, Third Quarter Earnings Conference Call, November 1, 2007
basis points over swaps and 195 basis points over Treasuries;\(32\) this was the highest level AAA CMBS spreads had reached since the 1998 Russian Ruble Crisis.

Along with contagion from other structured finance vehicles, such as RMBS and CDOs, the CMBS industry had fundamental problems with its 2005-2007-vintage underwriting practices. The use of interest-only payment structures, low debt service coverage ratios and high loan-to-value advance rates during the peak years of CMBS origination (2005-2007) would make it difficult to refinance many of these vintage loans as their terms expired in a difficult financial climate.

\[\text{Exhibit #26}\]

<table>
<thead>
<tr>
<th>Interest Only Loans in CMBS</th>
</tr>
</thead>
<tbody>
<tr>
<td>% of Loans that are Interest Only</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>0%</td>
</tr>
</tbody>
</table>


\[\text{Exhibit #27a}\]

<table>
<thead>
<tr>
<th>CMBS Issuance: Loan-to-Value Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwritten Loan-to-Value (LTV)</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>67%</td>
</tr>
</tbody>
</table>

Source: Reis Capital Markets Briering 4q quarter \(\Delta BU\).

\[\text{Exhibit #27b}\]

<table>
<thead>
<tr>
<th>CMBS Issuance: Debt Service Coverage Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underwritten Debt Service Coverage</td>
</tr>
<tr>
<td>2002</td>
</tr>
<tr>
<td>1.34</td>
</tr>
</tbody>
</table>

\[\text{Exhibit #27b}\]

CMBS is typically priced over swaps, but the table uses Treasuries in order to ensure comparability to BBB-rated corporate and REIT bond spreads.
As shown in the exhibit below, the decline in commercial real estate value was not a one-time occurrence. Historically, commercial real estate has repeatedly illustrated boom and bust cycles. However, the 2007/2008 downturn was much more severe than past declines, due largely in part to the extreme dislocation of capitalization rates.

The structural nature of CMBS combined with the cyclicality of the commercial real estate cycle would become a problem for GGP as it needed to extend or renegotiate loans. Because the CMBS market had not experienced a complete market collapse, the process involved to navigate a workout in a down market had not been entirely established.

Furthermore, the agency risk associated with different stakeholders within the CMBS structure complicated the workout process. A specific problem that occurred with large-loan CMBS was the placement of single loan into multiple CMBS issues. This would mean that, for GGP to negotiate an extension, multiple servicers would have to agree to the terms. Below is a chart that demonstrates the complex distribution of a single GGP property loan into multiple CMBS issues.
GGP Faces Liquidity Challenge

With the effective shutdown of the CMBS market, GGP was faced with a potentially devastating liquidity crisis. The company had $19 billion of debt maturing from 2008 to 2011. With its primary source of capital suddenly off the table, it was unclear how these debts would be refinanced.

The investment community recognized GGP’s predicament and the share price declined 13% during December, 2007. However, with many assets still performing strongly, GGP was not entirely out of options. In an effort to address investor concerns and provide additional transparency on financing options, the company published a “Capital Road Map for 2008 and 2009.” The “Road Map” laid out GGP’s funding plans for the near future.

While it waited for the return of the CMBS market, GGP looked to the more traditional balance sheet lenders, mainly life insurance companies, to pick up the financing slack. Said Freibaum in 2007,
For as long as the supply of traditional CMBS funding remains constrained, we can and will obtain new mortgage loans from so-called balance sheet or portfolio lenders.\textsuperscript{33}

MetLife, a typical balance sheet lender, provided approximately $700 million in loans to GGP over 2007 and early 2008. However, beginning in early 2008 this source of capital reportedly dried up as well, with MetLife looking to limit their exposure to GGP. This presumably occurred because of the life insurer’s ability to be selective among deals. A deteriorating retail climate combined with the sponsor risk of a highly levered GGP reduced the attractiveness of GGP’s malls for loans.

\textbf{Bridge Financing}

One of the first tests of GGP’s ability to navigate these headwinds was the expiring cross-collateralized loans for two Las Vegas malls: The Fashion Show and The Shoppes at the Palazzo. Fashion Show was a top-performing mall; therefore GGP had the opportunity to put in place a long-term loan\textsuperscript{34}, despite the difficulties in the financing markets. Palazzo, while able to receive long-term financing, was in lease-up and therefore not able to get the same attractive terms.

At this early stage of 2008, GGP remained convinced that the collapse of the CMBS markets would be temporary. Unable to get the terms they were seeking on the combined Las Vegas properties, GGP instead chose to place short-term debt with extension option on the properties with the goal of later securitizing both assets once Palazzo stabilized. A five-bank syndicate supplied a cross-collateralized $900-million loan package with a nine-month term\textsuperscript{35}.

\begin{displaymath}
\begin{array}{|c|c|c|c|c|c|c|}
\hline
\text{Quarter} & \text{GGP} & \text{SPG} \\
\hline
2004 Q1 & 2 & 2 \\
2004 Q2 & 3 & 3 \\
2004 Q3 & 4 & 4 \\
2004 Q4 & 5 & 5 \\
2005 Q1 & 6 & 6 \\
2005 Q2 & 7 & 7 \\
2005 Q3 & 8 & 8 \\
2005 Q4 & 9 & 9 \\
2006 Q1 & 10 & 10 \\
2006 Q2 & 11 & 11 \\
2006 Q3 & 12 & 12 \\
2006 Q4 & 13 & 13 \\
2007 Q1 & 14 & 14 \\
2007 Q2 & 15 & 15 \\
2007 Q3 & 16 & 16 \\
2007 Q4 & 17 & 17 \\
\end{array}
\end{displaymath}

\textsuperscript{33} General Growth Properties, Fourth Quarter Earnings Conference Call, February 12, 2008.

\textsuperscript{34} Bernie Freibaum on the General Growth Properties, Second Quarter Earnings Conference Call, July 31, 2008: “As I mentioned earlier, we had offers from a group of life insurance companies to put a new loan on Fashion Show of the same amount that we chose to borrow from banks, $650 million.”

\textsuperscript{35} Specifically, the syndicate provided a $650 million loan short-term loan in January 2008 to refinance the $351 million Fashion Show loan due to mature on 1/28/08. The syndicated $650 Fashion Show loan had seven consecutive one-month extensions with a final maturity date of November 2008. During 2008, GGP acquired the Palazzo under a prior agreement. In addition to the loan that refinanced Fashion Show, the five banks supplied an additional $250 million in

\textbf{Exhibit #30}
When this decision was made, Freibaum stated,

*We’re confident that these assets….will generate much better proceeds and long-term mortgages in the future. So we are using floating-rate debt.*

Fitting with the pattern displayed by GGP’s management team throughout the 2000’s, the company was prioritizing its pursuit of favorable rates – and by extension, its pursuit of growth – over long-term security.

This short-term loan would be the first obligation that GGP would actually default on in November 2008, likely making bankruptcy inevitable.

**Capital Markets Efforts**

In May, it was reported that General Growth Properties was seeking to float a corporate bond via its Rouse subsidiary, but this transaction never materialized. Despite $5 billion of REIT bond issuance in April and May, no unsecured bond transactions would hit the market for the remainder of the year.

*Exhibit #31*

<table>
<thead>
<tr>
<th>Date</th>
<th>Issuer</th>
<th>Amount (in millions)</th>
<th>Coupon</th>
<th>Term</th>
<th>Moodys</th>
<th>S&amp;P</th>
<th>Fitch</th>
</tr>
</thead>
<tbody>
<tr>
<td>4/10/2008</td>
<td>Westfield Group</td>
<td>$1,100</td>
<td>7.13%</td>
<td>10</td>
<td>A2</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>4/29/2008</td>
<td>AMB</td>
<td>$325</td>
<td>6.30%</td>
<td>5</td>
<td>Baa1</td>
<td>BBB</td>
<td>BBB+</td>
</tr>
<tr>
<td>5/1/2008</td>
<td>ProLogis</td>
<td>$600</td>
<td>6.63%</td>
<td>10</td>
<td>Baa1</td>
<td>BBB+</td>
<td>BBB+</td>
</tr>
<tr>
<td>5/6/2008</td>
<td>Duke Realty Corp.</td>
<td>$325</td>
<td>6.25%</td>
<td>5</td>
<td>Baa1</td>
<td>BBB+</td>
<td></td>
</tr>
<tr>
<td>5/13/2008</td>
<td>Simon Property Group</td>
<td>$800</td>
<td>6.13%</td>
<td>10</td>
<td>A3</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>5/13/2008</td>
<td>Simon Property Group</td>
<td>$700</td>
<td>5.30%</td>
<td>5</td>
<td>A3</td>
<td>A-</td>
<td></td>
</tr>
<tr>
<td>5/19/2008</td>
<td>iStar Financial</td>
<td>$750</td>
<td>8.63%</td>
<td>5</td>
<td>Baa2</td>
<td>BBB</td>
<td>BBB</td>
</tr>
<tr>
<td>5/22/2008</td>
<td>NorthStar Realty Finance Cor</td>
<td>$80</td>
<td>11.50%</td>
<td>5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total/Average</td>
<td></td>
<td>$4,680</td>
<td>6.8%</td>
<td>7.7</td>
<td>n/a</td>
<td>n/a</td>
<td>n/a</td>
</tr>
</tbody>
</table>

On March 24, 2008, GGP issued 22.8 million shares of common stock at $36 per share (the stock was currently trading at $38.16), including 2.4 million shares to the Bucksbaum family trust. The $822 million in proceeds went to pay down the company’s revolving credit facility and other company-level debt. While the market responded short-term secured debt. The loans were cross-defaulted and set to mature together, in November of 2008.


positively to this offering (the stock price rose to over $40 the following week), many analysts viewed this as a highly dilutive equity issuance. Green Street estimated that the sale of common stock represented a “staggering 45% discount to our NAV estimate.”

We surmise that the timing of the equity issuance was related to the near-term maturity (July 6, 2008) of the one-year $750-million bank loan originated to buy-out GGP’s joint venture partner of the Homart I portfolio in 2007. An additional $147 million was repaid in the second quarter of 2008 concurrent with a $452.6 million draw on the revolving credit facility. The balance of the loan would be refinanced with $875 million in proceeds from additional financing activity in July. The company’s July press release noted that the new secured mortgage facility repaid all loans with maturities in the third quarter of 2008.

This move solved one of GGP’s immediate problems, but the relatively small size of the equity issuance did not fundamentally change the company’s liquidity position. The company would not issue any additional equity before filing for bankruptcy, despite the fact that the stock price was still over $30 per share as late as July 30, 2008.

One of the factors that may have underpinned the decision not to sell more common stock was that GGP’s management team believed that the credit freeze would be a temporary phenomenon. In the third quarter of 2007 earnings call, Freibaum had responded to an analyst question that, “Although it doesn’t sound like a long time, eight months based on what has happened in the last two months, I think I can say is close to an eternity.” We believe GGP’s management team was operating under the assumption that by the time additional liabilities came due in the fourth quarter of 2008 they would once again be able to access the credit markets.

**Recourse Loans**

In July, 2008, GGP received a $1.45 billion secured credit facility from a syndicate of banks. Morgan Stanley, Goldman Sachs and Deutsche Bank each provided $410 million portions each, while five other banks split the final $225 million. The interest-only loan had a three-year term and was secured by 24 cross-collateralized retail centers. GGP proved that there was still some liquidity within the market, but it came at a hefty price; the loan was approximately 50% recourse to GGP. The loan encompassed some of the lower quality malls that GGP had struggled to finance up to that point. Of the 24

---

properties, approximately one-third of them were rated C+ or lower by industry observers.

While GGP used some of its unencumbered assets to back this loan, the company claimed there were additional properties that could support more lending. According to Freibaum, “Over the next 24 months, we currently anticipate that we will generate at least $1 billion of cash from mortgaging and/or selling non-core assets that are included in this $1.75 billion collection [of additional unencumbered assets].” Despite this claim, GGP would receive no additional market-rate debt before entering bankruptcy.

Management Changes

On September 15, 2008 Lehman Brothers filed for bankruptcy and the credit markets were overtaken with panic. CMBS spreads over Treasuries increased to staggering levels reflecting the fear in the market.39

Exhibit #32

The collapse of Lehman (and continued worsening of the economy) boded ill for GGP. Rich Moore, an analyst with RBC Capital Markets, said, “In this environment, no one

---

can get a loan. When you’re a company like GGP that’s desperately in need of capital, there’s a real threat that you can go insolvent despite your good assets. . . . banks won’t lend to each other, much less a real estate firm.” 40

![Exhibit #33](chart1.png)

The equity market reacted to the Lehman Brothers filing with broad losses on the day of the announcement; the S&P 500 saw the worst decline in the index since the first day of trading after the September 11th attacks in 2001. GGP outpaced the index’s decline of 4.7%, falling 13.8% on September 15th and another 47.7% over the next week.

![Exhibit #34](chart2.png)

By the end of September 2008, GGP’s situation had become more desperate. The proposed financing avenues laid out in its “Capital Road Map” were unlikely to materialize and the company’s $900 million in short-term financing on the Fashion Show and the Palazzo was maturing in less than two months.

In response to this deepening crisis, the company ended the 15-year tenure of its CFO Bernie Freibaum. The catalyst for his termination was the distressed sale of over 6.4 million shares of personally held GGP stock to meet margin calls triggered by the dramatic decline in share price. Some of these shares were sold in a prohibitive “black-out” window which restricted company executives from selling shares before the approaching third quarter earnings announcement.

As of August 2008, Freibaum owned nearly 7.6 million shares – over 3% of GGP’s total shares outstanding. This stake was amassed through compensation awards, cash purchases and borrowing (through the use of a margin account). A significantly leveraged equity position in a company can be problematic for an influential executive at a company facing significant declines in share price. Margin-induced insider sales can create disastrous signaling effects to the market and the effect of short-term share-price movements on an executive’s personal finances may color the decision-making process for that individual.

Exhibit #35

<table>
<thead>
<tr>
<th>Date</th>
<th>Shares</th>
<th>Price</th>
<th>Transaction</th>
<th>Type</th>
<th>Shares Owned</th>
<th>Implied Value of Holdings</th>
</tr>
</thead>
<tbody>
<tr>
<td>8/8/2008</td>
<td>1,400</td>
<td>$26.50</td>
<td>($37,100)</td>
<td>Purchase</td>
<td>7,546,956</td>
<td>199,944,334</td>
</tr>
<tr>
<td>9/18/2008</td>
<td>(44,200)</td>
<td>13.70</td>
<td>605,540</td>
<td>Sale</td>
<td>7,502,756</td>
<td>102,787,757</td>
</tr>
<tr>
<td>9/18/2008</td>
<td>(200,200)</td>
<td>16.89</td>
<td>3,381,458</td>
<td>Sale</td>
<td>7,302,556</td>
<td>123,343,092</td>
</tr>
<tr>
<td>9/18/2008</td>
<td>(114,500)</td>
<td>18.55</td>
<td>2,124,193</td>
<td>Sale</td>
<td>7,188,056</td>
<td>133,352,096</td>
</tr>
<tr>
<td>9/19/2008</td>
<td>(85,300)</td>
<td>19.10</td>
<td>1,629,230</td>
<td>Sale</td>
<td>7,102,756</td>
<td>135,662,640</td>
</tr>
<tr>
<td>9/19/2008</td>
<td>(66,500)</td>
<td>20.62</td>
<td>1,371,203</td>
<td>Sale</td>
<td>7,036,256</td>
<td>145,084,784</td>
</tr>
<tr>
<td>9/19/2008</td>
<td>(187,400)</td>
<td>21.52</td>
<td>4,032,848</td>
<td>Sale</td>
<td>6,848,856</td>
<td>147,387,381</td>
</tr>
<tr>
<td>9/19/2008</td>
<td>(801,900)</td>
<td>22.43</td>
<td>17,984,452</td>
<td>Sale</td>
<td>6,046,956</td>
<td>135,616,896</td>
</tr>
<tr>
<td>9/23/2008</td>
<td>(1,247,500)</td>
<td>17.25</td>
<td>21,519,250</td>
<td>Sale</td>
<td>4,799,456</td>
<td>82,790,136</td>
</tr>
<tr>
<td>9/23/2008</td>
<td>(2,500)</td>
<td>17.86</td>
<td>44,645</td>
<td>Sale</td>
<td>4,796,956</td>
<td>85,664,040</td>
</tr>
<tr>
<td>9/25/2008</td>
<td>(431,453)</td>
<td>15.71</td>
<td>6,780,143</td>
<td>Sale</td>
<td>4,365,501</td>
<td>68,602,102</td>
</tr>
<tr>
<td>10/2/2008</td>
<td>(1,304,167)</td>
<td>7.42</td>
<td>9,676,919</td>
<td>Sale</td>
<td>3,061,334</td>
<td>22,715,098</td>
</tr>
<tr>
<td>10/2/2008</td>
<td>(1,391,976)</td>
<td>8.93</td>
<td>12,430,346</td>
<td>Sale</td>
<td>1,669,358</td>
<td>14,907,367</td>
</tr>
<tr>
<td>10/2/2008</td>
<td>(253,857)</td>
<td>9.21</td>
<td>2,338,023</td>
<td>Sale</td>
<td>1,415,501</td>
<td>13,036,764</td>
</tr>
<tr>
<td>10/2/2008\1</td>
<td>(3,926)</td>
<td>0.00</td>
<td>0</td>
<td>Sale</td>
<td>1,411,575</td>
<td>13,000,606</td>
</tr>
<tr>
<td>10/3/2008</td>
<td>(44,800)</td>
<td>9.80</td>
<td>439,242</td>
<td>Sale</td>
<td>1,366,775</td>
<td>13,400,545</td>
</tr>
<tr>
<td>10/3/2008</td>
<td>(215,229)</td>
<td>10.93</td>
<td>2,352,130</td>
<td>Sale</td>
<td>1,151,546</td>
<td>12,584,670</td>
</tr>
<tr>
<td>10/3/2008</td>
<td>(64,971)</td>
<td>$11.78</td>
<td>765,599</td>
<td>Sale</td>
<td>1,086,575</td>
<td>12,803,874</td>
</tr>
</tbody>
</table>

\*Disposition to the Issuer of unvested Restricted Stock granted on 2/14/08
From September 18\textsuperscript{th} through October 3\textsuperscript{rd} 2008, he sold more than six million shares, over 80% of his holdings and more than 2% of the company’s outstanding shares at the time.\textsuperscript{41}

The board’s decision to fire Freibaum may have also been influenced by a perceived “principal/agent” conflict created by Freibaum’s leveraged equity holdings. In the press release announcing his termination, the company specifically noted that “all continuing executive officers of the Company have informed the Company that they have repaid in full all previously existing margin loans and thus there will be no further sales of Company Stock by those executives to satisfy margin calls.”\textsuperscript{42}

Another potential rationale, as described by a Wachovia analyst report, was that, “regime change is often necessary to re-establish credibility in the capital markets in advance of a capital infusion. Mr. Freibaum, architect of GGP’s balance sheet, has shouldered the blame for GGP’s dire straits and underperformance.”\textsuperscript{43}

Finally, the board may have simply hoped that a new CFO would be better able to negotiate extensions or other relief measures from the company’s lenders. Freibaum was a famously tenacious negotiator, and there was a sense in the market that few financing sources were interested in doing him favors. We are skeptical that Freibaum’s aggressive approach to negotiations was a factor in the company’s downfall, but it nonetheless may have played a role in his exit.

Almost immediately after his termination, word spread that Freibaum and the Chief Operating Officer and President, Bob Michaels, had been loaned $100 million by the Bucksbaum family. We believe these loans were extended over the summer to provide liquidity for margin calls as the stock price declined, to prevent distressed sales.

\textsuperscript{41} Class Action Complaint: Sharankishor Desai v. John Bucksbaum, Bernard Freibaum, \textit{et al.}
\textsuperscript{42} Amended Class Action Complaint: Sharankishor Desai v. Bucksbaum, Bernard Freibaum, \textit{et al.}
\textsuperscript{43} \textit{Ibid.}
However, facing additional distress brought on by the failure of Lehman Brothers, these loans were likely insufficient to cover the trading losses of both executives - triggering the massive insider sales in late September and early October.

The loans were not a violation of the SEC’s Sarbanes-Oxley rules because they were provided by the family trust as opposed to the company. However, the loans apparently violated an internal policy that Bucksbaum is reported to have personally drafted. In addition to the negative press regarding the loans, the stock fell below $2.17 on October 24th; the continued deterioration of the company’s share price may have provided another catalyst for change. That day, two members of General Growth’s Board of Directors asked CEO John Bucksbaum to resign. Bob Michaels would also be asked to resign his role as President. Michaels would remain with the company through bankruptcy and retain his title of Chief Operating Officer, reportedly to avoid violating change in control provisions in the company’s debt covenants and maintain continuity.

---

For the first time since 1954, General Growth’s CEO would not be a member of the Bucksbaum family. John Bucksbaum would remain on the General Growth Board of Directors and continue to wield significant influence given his family’s approximately 25% equity interest in the company. In resigning, he said “I accept the decision. I’ll do what’s in the best interest of the company and its shareholders.”

The two board members who had requested the resignation then immediately filled the vacated roles: Adam Metz was appointed CEO and Tom Nolan was appointed President. Both Metz and Nolan had been on the board since 2005, and some analysts questioned the selection of two people viewed as both insiders and a party to the decisions that led the company to the brink of bankruptcy. However, there was little time to conduct a search for a new CEO and President. Metz and Nolan’s experience and familiarity with the company would benefit the company as it attempted to manage through the uncertain markets. The stock responded positively to the announcement of the change, increasing from $1.97 to $3.39 per share the next day.


Pershing Square Assembles Stake in GGP

While the overall market had soured on GGP, not everyone felt the company was a bad bet. Pershing Square, the hedge fund of noted investor Bill Ackman, began investing in GGP in November 2008. By January 2009, Pershing Square had accumulated a stake of 22,901,194 common shares and control of an additional 52 million shares through derivative swap agreements; this economic exposure to 75 million shares accounted for 24.1% of the company’s outstanding shares. Throughout the period when Pershing Square assembled its position, GGP’s stock price fluctuated between a high of $2.32 and a low of $0.34. According to an estimate made at the time in the Wall Street Journal, Pershing Square paid an average of $0.71 per share.

In addition to this substantial equity investment, Pershing Square also bought large pieces of GGP’s outstanding unsecured Rouse bonds. Like the equity, GGP’s bonds were trading at a substantial discount, bottoming out at a value of 10¢ on the dollar. Pershing Square spent approximately $100 million to acquire bonds with a face value of $400 million.

Why was Ackman so aggressive in investing in GGP while the rest of the market was so bearish? He believed that the company had significant positive equity value and that it would be able to effectively restructure its maturing debt in bankruptcy.

Last Steps before Bankruptcy

GGP’s new management team attempted to raise funds by formally marketing three of the company’s top Las Vegas malls: Fashion Show, Grand Canal and the Shoppes at the Palazzo. The choice of these malls was due to both their high quality and the immediacy of the financing problems at these properties; the nine-month $900 million loan that the company had originated in January was nearing maturity and the anticipated improvements in the credit market had not materialized.

Despite the company’s need to raise equity, GGP did not sell any assets. In the best of times, high-quality malls trade rarely and, due to their size, there are relatively few buyers. Compounding this problem was that other mall owners, who were also seeking to raise cash, flooded the thinly traded market. Centro Properties, Feldman, Glimcher, and Lend Lease were listing numerous Class A and B malls. Finally, potential buyers were facing capital constraints of their own, either limiting what they could pay or taking them out of the running all together.

Another element to consider when evaluating any potential asset sales is the tax implications to such a move. A taxable gain on sale is calculated on a depreciated basis that ignored leverage. On a highly levered property, the tax liability could exceed the net sales proceeds available to the seller. The tax consequences of a sale may have made this path even less attractive.
Default on Las Vegas Properties
In the aftermath of the Lehman Brothers bankruptcy, an investment bank commitment to securitize the Fashion Show and Shoppes at the Palazzo loan never materialized. Without a source of funding for the maturing loans General Growth found itself on the proverbial edge of the cliff. A potential last-minute attempt to negotiate an extension with a syndicate of major banks was explored, but failed.47

On November 28th, the loans for the Fashion Show and the Shoppes at the Palazzo defaulted due to the expiration of the loan maturity date. The default triggered numerous cross-default provisions contained in many of GGP’s loans and sent the company into a frantic rush, racing from lender to lender trying to cure defaults through forbearance agreements that we surmise came with costly fees. The company was able to maintain this pattern for five months while preparing for the possibility of filing (Chapter 11) bankruptcy protection. The chart on the following page tracks the default on and forbearance of GGP’s significant loans and bonds until bankruptcy.

47 According to industry insiders an agreement with the syndicate was verbally reached. However, Citigroup pulled out of the syndicate at the last minute, reportedly in an attempt to extract payment or concessions in relation to a Citigroup loan on Oakwood Mall, a different GGP property secured outside of the bank syndicate.
Exhibit #37

- Nov 28, 2008:
  The loans for Fashion Show & Shoppes at Palazzo technically went into default.
  $1.38

- Dec 17, 2008:
  GGP received an extension on Palazzo & Fashion Show to February 12
  $1.58

- Jan 30, 2009:
  GGP attained an amended and restated forbearance and waiver agreement with its syndicate of lenders on the 2006 bank line and 2008 secured facility, which extended forbearance periods through March 15, 2009. Part of the agreement allowed GGP to default on other secured current mortgage loans going forward without termination of the amended forbearance.
  $0.65

- Feb 13, 2009:
  GGP was technically in default because the forbearance agreement on Fashion Show and Palazzo expired on February 12, 2009. The expiration of forbearance agreement triggered termination of other forbearance agreements including the 2006 bank line and the 2008 secured credit facilities’ forbearance agreements (extended on Jan 30.) At that time, GGP had not received default notices by the aforementioned lenders.
  $0.55

- Mar 9, 2009:
  GGP indicated that were negotiating with Rouse bondholders, which had $400 million of bonds due on March 16. At the time, GGP needed a 90% of the 2009 maturing bondholders to agree to forbear to the end of 2009.
  $0.38

- Mar 16, 2009:
  GGP missed the payment on $400 million of Rouse bonds due. It received forbearance until the end of the year on the 2006 bank line, subject to the Rouse bondholders also voting for forbearance. At that point, approximately 41% of Rouse bondholders had consented to the forbearance. The cross-default nature of the Rouse bonds and the 2006 bank line then triggered a cross-default with the 2008 secured credit facility.
  $0.64

- Mar 17, 2009:
  GGP announced that it would not pay interest on both its Rouse bonds and 2006 bank line. S&P downgraded GGP’s corporate credit and unsecured debt ratings to “D” because GGP was no longer paying interest on the Rouse bonds and the cross-default nature of the senior notes.
  $0.61

- April 16, 2009:
  GGP filed for bankruptcy
  $0.60
THE BANKRUPTCY FILING

Despite these last-ditch efforts to raise liquidity and stave off bankruptcy, GGP’s board of directors voted to seek voluntary protection under Chapter 11 of the U.S. Bankruptcy Code on April 16, 2009. As of the filing date, GGP reported assets of $29.6 billion, liabilities of $27.3 billion, and had $18.4 billion of debt maturing by the end of 2012. All in all, 388 GGP-affiliated debtor entities filed for protection in April 2009. This case would represent the single largest real estate bankruptcy case in U.S. history.

The sheer size of GGP, its complex operating structure (the organization chart that was filed with the bankruptcy filing was 21 pages long!), and the various and diverse number of stakeholder claims meant that this case would be closely watched by the legal and financial worlds.

Chapter 11

Chapter 11 bankruptcy is a form of bankruptcy reorganization available to corporations and partnerships. (For more information on Chapter 7 and 11 bankruptcies, see Appendix C.) Chapter 11 is the common choice of companies struggling with untenable debt loads, as it allows a company to maintain control of the day-to-day business operations (albeit under the supervision of the Court, which has the right to approve any significant business decisions) and attempt to restructure its debt. Chapter 11 provides the most flexibility of all the bankruptcy chapters (see below regarding plan approval and classes of claims) but is generally the most costly and time-consuming.

Judge Allan Gropper

The GGP case was assigned to Judge Allan Gropper. Judge Gropper was appointed as a U.S. Bankruptcy Judge in the Southern District of New York on October 4, 2000.

A cum laude graduate of both Yale and Harvard Law School, Judge Gropper worked as head of White and Case’s bankruptcy and reorganization practice group and was active in many of the nation’s largest Chapter 11 cases, including Manville Corporation, Texaco, LTV Corporation, Federated Department Stores/ Allied Stores Corp, MGM, Maxwell Communications Corp., United States Lines, Pan American World Airways and Waterman Steamship Corp.

As Judge, he has ruled on bankruptcy cases involving Northwest Airlines, Tronox, Bank of New York and Tower Automotive.

Source: Judge Allan Gropper’s Bio.
The Chapter 11 Process

Within 20 to 40 days after the petition for relief is filed, a hearing is held at which the debtor must appear. All creditors who have filed proofs of claim may attend.

In general, the hierarchy of claims in a Chapter 11 case:48

1. Secured Claims,
2. Super-priority Claims (DIP financiers),
3. Priority Claims:
   a. Administrative expenses (including legal and professional fees incurred in the case),
   b. Wages, salaries, or commissions,
   c. Employee Benefit Claims,
   d. Consumer deposits,
   e. Tax claims,
   f. Unsecured claims based on commitment to a federal depository institutions regulatory agency,
4. General Unsecured Claims (including unsecured bondholders),
5. Preferred Stock, and

Note that the treatment that a particular level of claims receives in a Chapter 11 proceeding is not prescribed by a hard-and-fast formula. Under the “rule of absolute priority,” no claimholder is entitled to receive any payment unless all more-senior claims have been made whole. In a Chapter 7 liquidation, this rule must be followed explicitly. However in a Chapter 11 case, the concept of absolute priority does not have to be followed precisely. Often in a Chapter 11 case, a

---

The Failed “Servicer Summit”

GGP made several attempts to restructure its secured debt outside of bankruptcy.

From the Memorandum of Opinion, Allan L. Gropper, August 11, 2009:

In January 2009, GGP contacted the master servicers of loans that were set to mature by January 2010, seeking to communicate with the special servicers regarding renegotiation of the loan terms.

The response from the master servicers was that the Company could not communicate with the special servicers until the loans were transferred, and that the loans had to be much closer to maturity to be transferred.

The GGP Group subsequently attempted to communicate with the master servicers regarding only those loans set to mature through May 2009, but received the same response. The Debtors then attempted to contact the special servicers directly, only to be referred back to the master servicers.

Finally, in February 2009, the GGP Group attempted to call a “summit” of special servicers to discuss those loans due to mature through January 2010, but only one servicer was willing to attend and the meeting was cancelled.

---

more-senior claimholder will leave consideration “on the table” for more-junior claimholder to ensure confirmation of the reorganization plan.

At the initial hearing the U.S. Trustee appoints a creditors committee from among the twenty largest, unsecured creditors who are not insiders. Ordinarily the committee will consist of the seven largest unsecured creditors that are willing to serve; however, this number often increases in larger cases. The GGP creditor’s committee contained ten members.

The creditors committee represents the creditors in providing oversight for the debtor’s operations and a body with whom the debtor can negotiate a plan of restructuring.

In some cases, additional creditor committees may be appointed by the Court, for example, committees that represent certain classes of bondholders or mezzanine lenders. Due to its primary position on the hierarchy of claims, it is rare for a secured creditor’s committee to be appointed.

In cases where it is expected that significant equity value exists which can be realized through the reorganization, an additional committee will be appointed to represent equity holders. In GGP’s bankruptcy case an equity committee was appointed in addition to the creditor’s committee. For the complete list of the members of the GGP creditors committee and equity committee, please see Appendix D. The committees work with debtor to develop a Chapter 11 plan of reorganization.

Key Rulings

Debtor-in-Possession (DIP) Financing
On April 16, 2009, GGP and its affiliated property-level entities filed a motion seeking, among other things, approval of DIP financing. As initially proposed by GGP, the DIP financing would have been secured by second liens on each of the shopping centers owned by the scores of property-level entities, and a first lien on the centralized cash management account (company cash flow). GGP further proposed that the property-level entities guarantee the DIP financing and secure those guarantees with liens on substantially all their assets, subject only to existing liens.
Additionally, the GGP proposal included an affiliate DIP loan concept, through which intercompany loans would be made by property-level entities and, in return, each of the property-level entities making an intercompany loan would be given an administrative claim in the bankruptcy case of the entity receiving the cash. The GGP proposal, including continuing its cash management system, would effectively turn the property-level entities into DIP lenders to GGP secured by administrative bankruptcy claims.

Various creditors subsequently filed objections to the DIP motion.

The initial prospective DIP facility was to be arranged by Pershing Square. Prior to the hearing on the DIP financing, alternative bidders for the DIP loan emerged, allowing GGP to create an auction among the various prospective lenders. The secured creditors of the SPE Property Owners were afforded an opportunity to weigh in on the process and establish a more favorable collateral position than the one initially proposed.

On May 14, 2009, the Court entered an order that authorized the debtor to enter into a DIP Facility that had the blessing of GGP as well as the secured and unsecured creditors. The DIP loan provider was Farallon Capital Management. The updated DIP loan structure did not include as obligors any of the project-level SPEs and, unlike the initial proposal, contained no second liens on any of the properties that were subject to a first-lien mortgage. Each applicable property-level entity was granted junior liens to the DIP Lenders on assets securing the obligations to the SPE Lenders, as well as senior liens on other unencumbered assets, and the DIP Lenders would also be granted junior liens on a group of other GGP affiliate-owned properties.

The initial (Farallon) DIP loan of $400 million was priced at LIBOR plus 12% with a maturity date of the earliest of May 16, 2011 or the date of bankruptcy emergence. The initial DIP facility allowed the debtor to prepay all or a portion of the outstanding principal balance in cash or in common stock of the reorganized entity (“New GGP

---


50 Ibid.
Common Stock”). Any repayment through the issuance of New GGP Common Stock was limited to be lesser of (i) 8.0% of the total amount of New GGP Common Stock distributed on a fully diluted basis, or (ii) 9.9% of New GGP Common Stock actually distributed.

The collateral properties for the DIP loan were the retail assets that at the time served as collateral for an approximately $210-million loan from Goldman Sachs. The Goldman loan reportedly included a discounted payoff mechanism if the loan was discharged prior to June 1, 2009. The $400 million in DIP financing retired the Goldman Sachs loan.

The approved DIP plan also provided the DIP lenders with a lien on the centralized cash management account, provided that such lien is junior to the lien of the secured creditors to the SPE Property Owners.

On July 8, 2010, GGP filed a motion seeking approval for new DIP financing, to be provided by Barclays plc. The replacement DIP loan contained substantially the same terms as the initial facility but carried a much more attractive interest rate of 5.5% (fixed). The replacement DIP loan paid off the original DIP facility and also had a maturity date of the earlier of May 16, 2011 or the date of bankruptcy emergence.

While the replacement DIP loan was initially funded by Barclays, the interests under the replacement DIP loan documents were assigned to Brookfield Retail Holdings shortly after closing.

In fact, the DIP loan documents explicitly stated the payments under the DIP loan were intended to fund Brookfield’s investment in GGP. In addition, subject to certain conditions, GGP would have the right to elect to repay all or a portion of the outstanding amount of the DIP loan at maturity by issuing common stock of the company to the lender.

The aggregate limits on the stock that could be issued to repay the DIP facility were identical to the initial DIP facility, on both a fully diluted and actual basis.

---

51 Case and White, May 2009.
52 From the General Growth Properties Form 8-K dated July 29, 2010: “Any payment, prepayment or repayment of the DIP Term Loan prior to the termination of, or consummation of the transactions contemplated by, that certain Cornerstone Investment Agreement, dated as of March 31, 2010, between the Company and REP Investments LLC (‘REP’), will be deposited into one or more escrow accounts, which are intended to fund REP’s investment in the Company.”
Use of Cash Collateral
Another motion filed on April 16, 2009 was the debtors’ request for the use of cash collateral to maintain operations at the parent level, pay pre-petition expenses, and provide funding to affiliated entities for the benefit of the parent organization as a whole. GGP was structured in such a way that surplus cash was “up-streamed” from project-level entities to a central cash management account which operated for the benefit of the entire enterprise.

Secured lenders argued that this was a violation of the SPE “separateness covenants” contained in the loan documents for the respective project-level properties and that protections afforded to such lenders under the loan documents (such as “cash trap” or “springing lockbox” provisions that – through a cash management agreement negotiated with the lender – sequestered all after-debt service cash flow at the project-level) could not be overridden.

The Court, in deciding on this motion, stated that “It is absolutely standard black letter law that covenants and conditions [contained in loan documents] are inevitably breached in bankruptcy . . . The most basic covenant is to pay on time. The breach of this covenant in some bankruptcy cases is total.”

The Court ruled that the project-level debtors were not required to hold all excess cash flow at the project level and that any up-streaming was not a violation of SPE provisions. The Court affirmed that the lenders had adequate levels of protection in their project-levels entities, such as the payment of interest at the non-default rate, continued upkeep and maintenance on the underlying properties, and a lien on the cash being up-streamed from each respective entity.

Motion to dismiss based on SPE violations
During the arguments relating to the motions for DIP financing and the use of cash collateral, it became clear that certain lenders and CMBS servicers intended to file motions to dismiss GGP’s bankruptcy case based on a violation of the “separateness” provisions contained in commonly accepted institutional loan documents. The GGP bankruptcy represented one of the first instances where these provisions would be tested by judicial review. These provisions applied to the SPEs that were set up to own the collateral under the secured loans. Some of the commonly used provisions included:

- non-consolidation measures that forbid alteration of the entity structure,
- limitations on indebtedness beyond the first-lien mortgages,
- restrictions on mergers and asset sales,
- a requirement that one or more “independent directors” be retained by each entity, and
- use of separate bank accounts, letterhead, etc.

To this point, it was commonly accepted in the institutional lender community that these provisions were designed to make the borrowing entity “bankruptcy-remote” (i.e. insulate the lender from having its project-level entity included in a bankruptcy filing by the parent entity).

On May 4, 2009, five motions to dismiss the bankruptcy case were filed, three by MetLife (as a conventional mortgage holder of approximately $568 million) and one each by ING Clarion and Helios (as special servicer of various CMBS trusts that contained mortgages of approximately $1.265 billion). MetLife, ING Clarion, and Helios are referred to collectively as the “movants” in this section.

The movants’ motions sought to dismiss the bankruptcy filing of the project-level entities that served as borrowing entities under its mortgages. The movants based their filings on a “bad faith” standard. Specifically:

- The case was filed prematurely in that, at the time of filing, there was no immediate threat to the financial wherewithal of the property-level borrowing entities on the movants’ loans.
- There was no chance of reorganization since there was no possibility of the confirmation of a plan over the objection of the lenders.
  - MetLife argued that the borrowing entities under the MetLife loans have no other creditors, that it holds the only impaired claim, and that the debtor will never be able to satisfy the condition of the Bankruptcy Code that the plan be accepted by one class of impaired creditors.\(^5\)
- The property-level entities failed to negotiate with the lenders prior to filing.
- The property-level entities replaced their independent directors prior to the bankruptcy filings.

The movants further argued that the single-purpose nature of a property-level obligor requires that each debtor’s financial condition be analyzed solely on its own merits,

without consideration for the parent entity, since these entities were technically solvent, they should not be included in GGP’s corporate bankruptcy filing.

In arguing this motion, the role and duties of the “independent director” (also referred to as “independent manager”) were also debated in court. Traditionally, independent directors have had vaguely defined roles. The operating agreements of the property-level special-purpose entities simply state that the independent directors were expected to act in a way that “considers only the interests of the Company (SPE), including its respective creditors, in acting or otherwise voting” and that, performing their duties, “any independent manager shall have a fiduciary duty . . . similar to that of a director of a business corporation.”

Indeed, Judge Gropper himself stated that, outside of the vague obligation to act in a fiduciary capacity, the evidence presented to the court “does not explain exactly what the independent managers were supposed to do.” The testimony of one lender made it clear that it believed the sole purpose of the independent director was to prevent a bankruptcy filing.

On August 11, 2009, Judge Gropper dismissed the movants’ motion and allowed the solvent SPE subsidiaries of GGP to maintain their bankruptcy cases. In dismissing the movants’ motion, the judge decided that no requirement existed that an entity be in financial distress before it could file a bankruptcy motion, no plan must be made available to a creditor for review prior to filing, and no requirement exists that a debtor must make an effort to negotiate with a creditor prior to filing. This last ruling is not a particularly surprising one, as the judge cited GGP’s well-documented futility in attempting to negotiate with its various CMBS servicers prior to filing.

The judge also concluded that, despite ruling against the movants, the entity-related lender protections contained in the loan documents are still in place, including the prevention of consolidation of the project-level entities into other entities.

Wrote Judge Gropper,

These Motions are diversion from the parties’ real task, which is to get each of the Subject Debtors out of bankruptcy as soon as possible. . . It is time that negotiations commence in earnest.  

---

55 Ibid.
56 Ibid.
With that ruling in place, debt restructuring negotiations came to the forefront of the bankruptcy proceedings.

Debt Restructuring
The uniqueness of this bankruptcy case manifested itself in many ways during the debt restructuring negotiations, including:

- The size, diversity, and complexity of the outstanding indebtedness meant negotiations would have to be handled in a fairly standard format among debt holders in order to achieve any level of efficiency
  - The secured lenders included commercial banks, investment banks, life insurance companies, and CMBS master servicers
- The complexities presented by the CMBS structure, as earlier discussed.
- The fact that GGP was a cash flow-positive and had remaining equity value on its balance sheet (*i.e.*, its assets exceeded its liabilities as of the filing date).
- The labor- and scale-intensive business of operating large retail centers gave GGP a comparative advantage in its lender negotiations. We surmise that lenders were surely aware that the value of a GGP mall was significantly greater while under the control and operation of GGP as compared to if the mall were to be taken back by the lender.
- The continued upheaval in the capital markets also most likely allowed GGP to negotiate a more favorable position. We further surmise that most of the lenders involved in the GGP proceedings were working through other credit-related issues in their portfolios, albeit most likely nowhere near the scale and visibility of the GGP case.

GGP and its advisors endeavored to develop an objective restructuring “methodology” that could be applied in a standardized format to each secured lender, regardless of the loan size or type of lender. The methodology created a matrix of extension options that, based on objective criteria, would determine how a particular loan was to be restructured or extended.

The methodology utilized much of the same credit and underwriting metrics that any reasonable lender would use underwriting a transaction. The framework divided the
loans by property type—regional malls, strip centers, and office properties—and further grouped the loans based on the following characteristics:

- debt yield,
- sales per square foot,
- occupancy,
- projected NOI, and
- demographic information:
  - population density, and
  - local household income.

Analyzing the characteristics of each loan covered produced two groups of loans -- Group A (essentially, higher-quality collateral) and Group B (essentially, lower-quality collateral).

Once the methodology was developed, the debtors drafted a term sheet that was distributed to the lending entity on each of GGP’s 108 secured loans. The term sheet, distributed on November 18, 2009, described the proposed terms to be used to restructure the outstanding property-secured debt.

The proposed terms included:

- **Interest Rate.** The interest rates on each loan would remain at the non-default contract rate.
- **Principal Balance.** The proposed terms did not call for any immediate principal paydown.
- **Maturity dates:**
  - All Group A loans with loan balances less than $150 million received an extension of 3.5 years, and all Group A loans with balances equal to or greater than $150 million received an extension of 5 years.
  - Subject to certain exceptions as outlined below, all Group B loans with loan balances less than $150 million received an extension of 5 years, and all Group B loans with balances equal to or greater than $150 million received an extension of 6.5 years.
  - Modifications to the general rules set forth above are as follows:

---

57 Interviews with individuals close to the negotiations surrounding the secured debt restructuring, Chicago, IL, October 2011.


---

**Ackman Seeks Seven Years**

Pershing Square was the first group to propose seeking a 7-year extension of all unsecured and secured debt. It made this case in a presentation to an investment conference on May 27, 2009.

After applying the general rules, if an extended loan would have a maturity prior to December 2013, the maturity for such loan was extended to January 2014;

If a loan had an original maturity in 2014 or beyond, such loan only received only a 2-year extension; and

To the extent a pooling and servicing agreement only permitted extensions of 5 years or less, extensions were capped at 5 years.

Lastly, if after applying all other rules, a loan having a balance of $150 million or greater would mature in 2018 or beyond, the loan’s extension was reduced by nine months for Group A loans and six months for Group B loans.

- **Amortization:**
  - Interest-only loans would begin to amortize on a 30-year schedule
  - All loans would begin amortizing on a 25-year schedule as of January 1, 2013.
  - All loans would begin amortizing on a 20-year schedule as of January 1, 2016.

- **Prepayment:**
  - Any loan would be open to prepayment at par during the 6-month period immediately following GGP’s emergence from bankruptcy.
  - Any loan would be open to prepayment at par at any point after its pre-bankruptcy initial maturity date. (For example, if the loan on Mall X had a maturity date of December 1, 2011 and the maturity date of the loan was extended to December 1, 2016, the loan was available to be prepaid during the 6 months after emergence and then at any point after December 2, 2011).\(^{59}\)

The biggest negotiating point that lenders argued was the quality of the collateral underlying its loan – the lender would want its collateral to receive a higher quality ranking (i.e., lenders on Group B loans wanted their collateral to be included in Group A) so that its loan would fall into a shorter extension proposal on the methodology matrix.\(^{60}\)

Initially, lenders on 87 of the 108 project-level loans (totaling approximately $10.2 billion) approved the restructuring terms. Shortly after the results of the initial

\(^{59}\) Interview with individuals close to GGP, Chicago, IL, November 2, 2011.

\(^{60}\) Gary Axelrod, interview by authors, Chicago, IL, September 30, 2011.
settlement became public knowledge, an additional group of secured lenders, representing $1.2 billion, accepted restructuring terms and joined in the settlement.

Beginning on December 15, 2009 and continuing through May 20, 2010, GGP confirmed fully consensual plans of reorganization for its 262 project-level borrowing entities and successfully restructured approximately $15 billion of debt covering 108 loans (many of the loans had multiple entities as co-borrowers, hence the larger number of borrowing entities relative to actual loans).

The outcome of the secured debt negotiations was remarkable:

- weighted-average loan maturity extension of 5 years (with no loans maturing prior to January 1, 2014),
- average interest rate of 5.24%,
- 100% recovery to unsecured creditors, and
- GGP's equity interests in its relevant subsidiaries were left intact.

Certain loans (13 in total) with total secured debt of $730.6 million were unable to be restructured. On these “Special Consideration Properties”, the settlements reached with the lenders allowed the borrowing entities and the applicable secured lender to negotiate a fundamental restructuring of the loan obligations. These settlements also offered, absent a mutually satisfactory restructuring, a right of either party to call for the property to be deeded to the lender in satisfaction of the loan obligations. As of the third quarter of 2011, seven of the properties had been deeded back to the lender, two had been taken back by GGP via a discounted pay-off, and three had been sold, and one remained on GGP’s balance sheet. For a complete list of the Special Consideration Properties, see Appendix D.
Financial Outcome for Various Classes of Claims

GGP filed its Joint Plan of Bankruptcy on July 13, 2010 and identified the following classes of claims:

### Exhibit #38

<table>
<thead>
<tr>
<th>Class</th>
<th>Nature of Claim or Interest</th>
<th>Impairment</th>
<th>Entitled to Vote *</th>
<th>Recovery</th>
</tr>
</thead>
<tbody>
<tr>
<td>N/A</td>
<td>Administrative Expense Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>Priority Tax Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>Secured Tax Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>DIP Loan Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>Professional Compensation and Reimbursement Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>Indenture Trustee Fee Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>N/A</td>
<td>GGP Administrative Expense Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.1</td>
<td>Priority Non-Tax Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.2</td>
<td>Mechanics’ Lien Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.3</td>
<td>Other Secured Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.4</td>
<td>Rouse 8.00% Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.5</td>
<td>Rouse 3.625% Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.6</td>
<td>Rouse 5.375% Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.7</td>
<td>Rouse 6.75% Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.8</td>
<td>Rouse 7.20% Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.9</td>
<td>2006 Bank Loan Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.1</td>
<td>Exchangeable Notes Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.11</td>
<td>TRUPS Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.12</td>
<td>General Unsecured Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.13</td>
<td>GGP/Homart II, L.L.C. Partner Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.14</td>
<td>GGP/Ivanhoe, Inc. Affiliate Partner Note Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.15</td>
<td>GGP TRS Retained Debt Claims</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.16</td>
<td>Project Level Debt Guaranty Claims</td>
<td>Impaired</td>
<td>No**</td>
<td>100%</td>
</tr>
<tr>
<td>4.17</td>
<td>Hughes Heirs Obligations</td>
<td>Impaired</td>
<td>Yes</td>
<td>100%</td>
</tr>
<tr>
<td>4.18</td>
<td>Intercompany Obligations</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.19</td>
<td>GGPLP LLC Preferred Equity Units</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.2</td>
<td>GGP LP Preferred Equity Units</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.21</td>
<td>REIT Preferred Stock Interests</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.22</td>
<td>GGP LP Common Units</td>
<td>Unimpaired</td>
<td>No</td>
<td>100%</td>
</tr>
<tr>
<td>4.23</td>
<td>GGP Common Stock</td>
<td>Undetermined</td>
<td>Yes</td>
<td>Pro Rata portion of the New GGP and Spinco shares to be distributed per Investment Agreements</td>
</tr>
</tbody>
</table>

* Any classes that are unimpaired are "Deemed to Accept” and are unable to vote on the acceptance of the Plan
** Deemed to accept under acceptance of the terms of the Subsidiary Plans.
Only two of the claims classes were considered “impaired.” As discussed in Appendix C, all classes considered as “unimpaired” were “deemed to accept” the bankruptcy plan and, therefore, were prohibited from voting on its adoption. The secured debtors (Class 4.16) were impaired but “deemed to accept” through their acceptance of the afore-mentioned restructured debt agreements.

The two claims that were impaired and fully entitled to vote on the acceptance of the plan were the Howard Hughes Heirs (Class 4.17) and the GGP Common Stockholders (Class 4.23). Thus, as of July 13, 2010, acceptance of the Plan could be achieved by approval of the plan by at least two-thirds in amount of the interest-holders in Classes 4.17 and 4.23, as measured by number of shares held.

**Contingent Profits Due to Howard Hughes’ Heirs**

Once GGP successfully restructured its debt, one of the last remaining hurdles to overcome before it could exit bankruptcy was satisfying the heirs to the Howard Hughes’ estate.

On September 20, 2010, GGP announced that it had reached an agreement with the Hughes heirs regarding the Summerlin development. The settlement called for a payment of $230 million to the heirs in exchange for a full release of all claims. The agreement outlined a cash payment of $10 million and $220 million in cash or shares of the new GGP’s common stock at the election of the company.

The Costs of GGP’s Chapter 11 Filing

According to the Disclosure Statement for Plan Debtor’s Reorganization filed July 13, 2010, total bankruptcy fees and costs were estimated at $410 million. These costs and fees included “professional fees incurred but unpaid, professional fee holdbacks for select professional services firms, estimated capital raise fees, forecasted success fees and an estimated obligation under a key employee incentive program.”

Costs included an approximate $113 million in “non-equity incentive payouts” to key executives during 2010, including $46 million to Adam Metz and $34 million to Thomas Nolan. (Proxy Statement 14-A-3/15/11)

GGP also incurred indirect costs as a result of bankruptcy that included challenges in employee retention and productivity as well as reduced operating leverage with tenants. In addition, during the bankruptcy process, GGP was unwilling to fund large tenant improvement packages in an effort to conserve capital. This was believed to be a major contributing factor in the decline in same-store NOI during bankruptcy.

Summerlin and the Howard Hughes Heirs

Rouse purchased Summerlin in 1996 from the heirs of Howard Hughes’ estate. The famous aviator had acquired the land in the 1940s and named it for his grandmother.

When Rouse purchased Summerlin, the purchase agreement called for Rouse to pay the heirs half of the profits from land sales (a total of $570 million had been paid during the life of the agreement), with the final payment coming in 2009. At that time, Rouse would pay the heirs half the appraised value of any remaining land. As of the bankruptcy, 7,500 acres remained unsold.
DEPARTING BANKRUPTCY

Competing Offers for GGP

In the 18 months it took GGP to emerge from Chapter 11, the saga surrounding the control of GGP’s assets would take many twists and turns. Simon Property Group ("Simon") started a 3-month bidding war – outlined in the exhibits below – in February 2010 against a team of investors led by Brookfield Asset Management.

Despite’s Simon’s overtures, GGP ultimately entered into an agreement with Brookfield, Fairholme Capital and Pershing Square Capital Management, to recapitalize the company and exit bankruptcy. This bidding war is described in detail in the following sections.
## Timeline around the Recapitalization Plan

**Simon vs. Brookfield/ Pershing Square/ Fairholme**

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simon initial bid valued at $9.00 per share</td>
<td>February 8, 2010</td>
</tr>
<tr>
<td>Brookfield joined by equity commitments from Fairholme and Pershing Square to form BFP proposal</td>
<td>March 8, 2010</td>
</tr>
<tr>
<td>Simon joined additional new capital partners and revises its 2nd offer; adds capital backstop</td>
<td>April 21-22, 2010</td>
</tr>
<tr>
<td>Simon’s best and final offer valued at $20.00 per share, w/o backstop</td>
<td>May 6th, 2010</td>
</tr>
<tr>
<td>GGP files the Plan and Disclosure Statement with the bankruptcy court</td>
<td>July 12, 2010</td>
</tr>
<tr>
<td>Bankruptcy court approves the BFP plan and awards stalking horse status. Simon withdraws offer.</td>
<td>May 7th, 2010</td>
</tr>
<tr>
<td>GGP emerges from bankruptcy</td>
<td>November 8, 2010</td>
</tr>
</tbody>
</table>

* BPF represents Brookfield Asset Management, Pershing Square Capital Management and Fairholme Capital.
## Competing Offers

### Illustrative Bid Summary

<table>
<thead>
<tr>
<th>Date</th>
<th>Bid Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 8, 2010</td>
<td>SPG Initial Bid</td>
</tr>
<tr>
<td>February 24, 2010</td>
<td>BAM Initial Bid</td>
</tr>
<tr>
<td>March 8, 2010</td>
<td>BFP Initial Bid</td>
</tr>
<tr>
<td>April 14, 2010</td>
<td>SPG Bid II</td>
</tr>
<tr>
<td>May 3, 2010</td>
<td>BFP Final Bid</td>
</tr>
<tr>
<td>May 6, 2010</td>
<td>SPG Final Bid</td>
</tr>
</tbody>
</table>

### Illustrative Bid Summary (Billions)

<table>
<thead>
<tr>
<th>Equity at $9.00 Per Share Total</th>
<th>SPG Equity ($6.00 MallCo + $3.00 SpinCo)</th>
<th>Equity at $15.00 Per Share Total</th>
<th>Pershing Square Equity ($10.00 MallCo + $5.00 SpinCo)</th>
<th>Equity at $15.00 Per Share Total</th>
<th>Pershing Square Equity ($10.00 MallCo + $5.00 SpinCo)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity at $15.00 Per Share Total</td>
<td>BAM Equity ($10.00 MallCo + $5.00 SpinCo)</td>
<td>Fairholme Equity ($10.00 MallCo + $5.00 SpinCo)</td>
<td>SPG Equity ($10.00 MallCo + $5.00 SpinCo)</td>
<td>SPG Payoff of Unsecured Debt</td>
<td>Fairholme Equity ($10.00 MallCo + $5.00 SpinCo)</td>
</tr>
<tr>
<td>Equity at $15.00 Per Share Total</td>
<td>Additional Equity Raise at $10.00 Per Share of MallCo</td>
<td>BAM Equity ($10.00 MallCo + $5.00 SpinCo)</td>
<td>SPG Payoff of Unsecured Debt</td>
<td>Unsecured Debt to be Raised</td>
<td>Unsecured Debt to be Raised</td>
</tr>
<tr>
<td>Equity at $15.00 Per Share Total</td>
<td>Unsecured Debt to be Raised</td>
<td>SPG Payoff of Unsecured Debt</td>
<td>Unsecured Debt to be Raised</td>
<td>SPG Payoff of Unsecured Debt</td>
<td>Unsecured Debt to be Raised</td>
</tr>
</tbody>
</table>

### Secured Debt

- February 8, 2010
- February 24, 2010
- March 8, 2010
- April 14, 2010
- May 3, 2010
- May 6, 2010
Simon’s Initial Bid

February 8 2010: Simon Property Group (Simon) presented a take-over offer to GGP’s board. Simon formally proposed to acquire GGP in a transaction that would provide a full cash recovery (par plus accrued interest and dividends) to GGP’s unsecured creditors, the holders of its trust preferred securities, the lenders under the GGP credit facility, and the holders of the Exchangeable Senior Notes.61

In addition to the full repayment of the unsecured creditors, common stock holders would receive a total value of $9.00 per share, consisting of $6.00 per share in cash and a distribution of GGP’s ownership interest in the MPC assets valued at $3.00 per share. As an alternative to a pure cash payment, Simon prepared to offer common equity in the newly combined Simon, in whole or in part, as payment to those GGP shareholders or creditors who would prefer to participate in the potential upside of stock ownership. Under Simon’s offer, the existing secured debt on GGP’s portfolio of assets would remain in place.62

GGP’s net asset value (“NAV”) was estimated to be $8.25 per share63 by Green Street Advisors at the time. However, Simon’s offer was quickly rejected by GGP’s board. Additionally, the proposed transaction was proposed to be financed through a combination of Simon’s cash on hand and through equity co-investments by outside institutional investors. However, without specific partners identified in the offer, the legitimacy of the offer was greatly discounted by the board.64

In a letter sent on February 17, 2010, Simon’s CEO David Simon responded to GGP by expressing dissatisfaction with GGP’s quick rejection and demanding immediate serious engagement.

It is simply wrong to characterize our offer as an ‘indication of interest.’ Given the clear risks of pursuing an alternative plan, the current state of the retail industry and your company’s past

---

61 In April 2007, GGPLP sold $1.55 billion aggregate principal amount of 3.98% Exchangeable Senior Notes, which were exchangeable for GGP common stock or a combination of cash and common stock.
64 In a February 16, 2010 letter from Adam Metz to Simon Property Group, Metz described Simon’s initial offer “an indication of interest.”
history of risky financial choices, your lack of urgency should deeply concern creditors and shareholders.

**Brookfield’s Initial Bid**

February 24, 2010. Brookfield announces that it would inject $2.63 billion in cash to assist GGP in exiting from bankruptcy. Brookfield’s proposal also included creating a new company, General Growth Opportunities (GGO), which would hold certain non-core assets, such as the company’s MPC and landmark developments such as South Street Seaport. GGO’s portfolio would contain many development projects that require large amounts of capital yet would produce limited interim cash flow. (See page 89 for a complete list of assets owned by GGO.)

**Exhibit #41**

<table>
<thead>
<tr>
<th>Company</th>
<th>Operating Retail Assets</th>
<th>Transitional Assets</th>
<th>Easy for Market to Value</th>
<th>Near-Term Cash Flows</th>
<th>Near-Term Capital Needs</th>
</tr>
</thead>
<tbody>
<tr>
<td>New GGP</td>
<td>175</td>
<td>0</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
</tr>
<tr>
<td>GGO</td>
<td>7</td>
<td>21</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Under the Brookfield plan, GGP’s unsecured creditors would be paid in full – the debt’s face value plus accrued interest – as would the secured creditors. Specifically, Brookfield would invest $2.5 billion in cash in GGP in exchange for GGP common stock, thereby providing sufficient liquidity to fund GGP’s bankruptcy emergence needs. Under the terms of the plan, Brookfield would invest $2.5 billion at $10.00 per share for new GGP common stock and up to $125 million at $5.00 per share for GGO common stock. In return, Brookfield would also be granted seven-year warrants to purchase 60 million shares of existing GGP common stock at $15.00 per share. The warrants were intended to provide compensation to Brookfield for its financial commitment and serve as a sizeable breakup fee in the event a higher offer would be subsequently accepted. 65

GGP reacted to Brookfield’s offer positively. Metz said: 66

>This proposed plan offers significant value for all of our stakeholders. It is designed to allow GGP to deliver a minimum of $15 per share in value to our existing common shareholders, while providing our unsecured creditors with par plus accrued interest.

---

65 Brookfield will not receive any other consideration or bid protection, including any break-up fee, expense reimbursement, commitment fee, underwriting discount or any other fees.

The Brookfield-sponsored recapitalization — coupled with the more than $13 billion of restructured debt, our compelling scale as the second-largest regional mall owner, our fortress assets and a business plan that focuses on further deleveraging the balance sheet and building liquidity — provides a strong financial foundation for the future.

In a press release issued that same day, David Simon responded to Brookfield’s bid.67

General Growth’s proposed recapitalization (via Brookfield bid) amounts to a risky equity play on the backs of unsecured creditors. While continuing to block the immediate and certain 100% cash recovery provided by Simon’s offer, General Growth has preempted its own self-proclaimed ‘process’ in favor of a highly speculative and risky plan to attempt to raise $5.8 billion of new capital in today’s uncertain markets — on top of the approximately $28 billion it already owes. Simon is providing $10 billion of real value - $3 billion to shareholders as well as $7 billion to creditors — as compared to a complex piece of financial engineering that is so highly conditional as to be illusory.

The Brookfield/Fairholme/Pershing Square Team (“BFP”)

March 8, 2010: Fairholme Capital Management, LLC (Fairholme) and Pershing Square Capital Management, L.P. (Pershing Square) offered to invest $3.925 billion of new equity capital in GGP. The proposal was an add-on to the Brookfield proposal (submitted on February 24, 2010) that valued GGP at $15.00 per share ($10.00 per share for New GGP plus $5.00 per share for GGO), representing a 6.5% premium above the current market price per share of $14.08.

The Fairholme/Pershing Square investment addressed outside concerns surrounding the Brookfield bid by reducing the execution risk of raising additional equity in a volatile capital markets environment. Equally as important, the Fairholme/Pershing Square investment helped match SPG’s unsecured debt repayment terms that had been previously approved by the unsecured creditors committee.

At the time of their offer, Fairholme was the largest unsecured creditor of GGP holding approximately $1.83 billion of unsecured indebtedness. Fairholme is an asset management firm led by Bruce Berkowitz that manages approximately $20 billion through various funds. The firm uses a focused, value-oriented approach to investment research and concentrated portfolio management.68

---

68 www.streetinsider.com/entities/Fairholme+Capital+Management
Pershing Square was the largest equity holder with a 25% equity stake in GGP (approximately 7.5% in direct ownership and the remainder via swap contracts with investment banks) including $434 million in unsecured indebtedness. Pershing Square is a $9 billion hedge fund led by activist/investor Bill Ackman. Ackman had been on the board of directors of GGP since June 2009 and resigned his position in conjunction with the announcement of his firm’s equity commitment.

The proceeds from the Fairholme/Pershing Square offer were to be applied to redeem existing unsecured creditors at par plus accrued interest and to provide working capital to GGP for the time period before and after their emergence from bankruptcy. As explained in the investor term sheet:

You have asked us for a commitment that is designed to be consistent with the parallel equity investment proposed by Brookfield Asset Management, Inc. . . . but is also capable of being adapted as circumstances change.

Below is a summary of the two most critical deal points of the Fairholme/Pershing Square investment:

1) $3.8 billion Equity Commitment: The equity commitment from Fairholme/Pershing Square answered the biggest question surrounding the Brookfield proposal of how GGP could raise $5.8 billion in new equity capital in the current markets. Before the Fairholme/Pershing Square proposal, there was significant doubt that GGP would be able to raise equity from new investors and

---

69 Fairholme and Pershing Square Term Sheet to General Growth Properties, March 8, 2010.
70 Ibid.
speculation that GGP would need to sell key assets in order to accomplish this goal. These were chief concerns not only in the marketplace, but also a lynchpin to Simon’s argument that its $9.00 per share offer was superior to the Brookfield proposal at $15.00 per share.

2) Unsecured Lenders to be Repaid at Par Plus Interest in Cash: Another key element of the Fairholme/Pershing Square proposal was that it allowed for full repayment in cash of roughly $7 billion in unsecured debt at par plus accrued interest vs. a combination of cash and stock. This cash repayment of the unsecured lenders matched the repayment terms of the Simon proposal that had been previously approved by the unsecured creditors committee.

Specifically, the terms of the Fairholme/Pershing Square offer were as follows:

- $3.8 billion of Common Stock of GGP: Each investor would commit to purchase their pro rata share of $3.8 billion of common stock of the reorganized company (“New GGP”) at $10.00 per share. Fairholme’s pro rata share was 71.4% or $2.7 billion and Pershing Square’s pro rata share was 28.6% or $1.1 billion. GGP would have the ability to claw back 50% of these shares at the $10.00 per share at any time prior to the 30th day prior to issuance in the event the company is able to raise equity at a lower cost of capital (subject to a $1.9 million minimum investment by Fairholme/Pershing Square).

- $125 million for Issuance of General Growth Opportunities (GGO Stock): Fairholme and Pershing Square would each provide up to $67.5 million, or $125 million of total capital, to backstop a common stock rights offering for the spinoff company, GGO. GGO would hold the assets and properties described in the Brookfield Proposal at an initial value of $5.00 per common share. Fairholme and Pershing Square would receive a minimum allocation of $50 million of shares in GGO and a backstop consideration of 5.0% of their $125 million in commitments payable in GGO shares.

- Warrants: Fairholme and Pershing Square would receive warrants on a pro rata basis to purchase a total of 60 million shares of existing GGP common stock at an exercise price of $10.00 per share with a seven-year term. The pro rata split amounts to 42.5 million warrants for Fairholme and 17.1 million warrants for

---

Fairholme and Pershing Square Term Sheet to General Growth Properties, March 8, 2010.
Pershing Square. The investors would also each receive 20 million warrants of GGO shares at an exercise price of $5.00 per share with a seven-year term.

- **Board Seats**: The investors would be allowed to appoint one member of a nine-member board of directors to the new GGP company and two members of a nine-member board of GGO.

When taken together with the $2.5 billion Brookfield proposal, the total commitment from BFP totaled $6.3 billion. In addition, GGP planned to raise $1.5 billion of unsecured indebtedness, bringing the total to $7.8 billion; these cash proceeds were to be used to pay off unsecured lenders with approximately $800 million remaining to fund working capital needs:

*Exhibit #42*

**Sources and Uses of Brookfield, Fairholme, Pershing Square Equity Investment**

<table>
<thead>
<tr>
<th>New GGP Sources</th>
<th>New GGP Uses</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2.7 Billion</td>
<td>Approx. $800 Million in Working</td>
</tr>
<tr>
<td>Fairholme</td>
<td>Approx. $400 Million Accrued</td>
</tr>
<tr>
<td>$2.5 Billion</td>
<td>$6.6 Billion Corporate Debt</td>
</tr>
<tr>
<td>Brookfield</td>
<td></td>
</tr>
<tr>
<td>$1.5 Billion Unsecured Debt</td>
<td></td>
</tr>
<tr>
<td>(Term Loan)</td>
<td>$7.8 Billion Total</td>
</tr>
<tr>
<td>$1.1 Billion Pershing Square</td>
<td></td>
</tr>
<tr>
<td>$7.8 Billion Total</td>
<td></td>
</tr>
</tbody>
</table>

Pro Forma New GGP Ownership:

Exhibit #43

![Diagram of ownership proportions]

Source: Green Street Advisors

**Illustrative Valuation Methodology:**
Below is an illustrative NAV calculation for GGP near the time of the proposed Fairholme/Pershing Square investments:
Note that the NAV analysis above could be considered a floor valuation for GGP for two reasons:
1.) The NAV calculation ascribes no value to GGP’s third-party management business nor does it accurately value GGP’s transitional/development assets due to their insignificant current contribution to company NOI.

2.) The 7.75% capitalization rate implies a 75 bps discount placed on GGP compared to its peers due to bankruptcy risk. Naturally, the NAV estimate is very sensitive to the capitalization rate used in the analysis. Consequently, the following exhibit illustrates that sensitivity:

**Exhibit #45**

**NAV Cap Rate Sensitivity Matrix**

<table>
<thead>
<tr>
<th>Cap Rate</th>
<th>Approx. NAV Per Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.50%</td>
<td>$33.37</td>
</tr>
<tr>
<td>6.75%</td>
<td>$29.18</td>
</tr>
<tr>
<td>7.00%</td>
<td>$25.29</td>
</tr>
<tr>
<td>7.25%</td>
<td>$21.67</td>
</tr>
<tr>
<td>7.50%</td>
<td>$18.29</td>
</tr>
<tr>
<td>7.75%</td>
<td>$15.12</td>
</tr>
<tr>
<td>8.00%</td>
<td>$12.16</td>
</tr>
<tr>
<td>8.25%</td>
<td>$9.38</td>
</tr>
<tr>
<td>8.50%</td>
<td>$6.75</td>
</tr>
</tbody>
</table>

Per Green Street Advisors, SPG’s implied cap rate was 6.6% at the time of the Fairholme/Pershing Square investment.

Pershing Square’s earlier presentation on May 27, 2009 contended that the value range for GGP is $9.11 to $21.50 per share using similar NOI and cap rate methodologies.

Green Street Advisors estimated GGP’s NAV to be between $11.00 - $15.00 per share between February and March of 2010.

Simply put, Fairholme/Pershing Square believed that GGP had a liquidity problem, not a solvency problem, and that there was significant equity value in the company.

In addition, Fairholme/Pershing Square believed that the bankruptcy process represented an opportunity to improve the current overall capital structure by negotiating favorable repayment terms with secured mortgage holders. Pershing Square in particular believed this to be the case based on its analysis of the precedent set in Till v. SCS Credit Corp in 2004 (“Till Case”). In the Till Case, the U.S. Supreme Court established a precedent to adjust interest rates (for secured and unsecured debt) in the bankruptcy context.

Pershing Square believed that, similar to the economic environment in the Till Case, there was not currently an efficient market to reset GGP’s interest rates. In such an environment, the court in the Till Case used a formula approach whereby interest rates
were set (essentially a cramdown) at prime plus a risk premium of between 1.0 - 3.0%. This was the methodology that Pershing Square suggested be used for GGP\footnote{Pershing Square Capital Management, “The Buck’s Rebound Begins Here,” Presentation, May 27, 2009.}

**Simon’s Second Bid – An Improved Offer to Match the BFP Bid**

April 14, 2010: Simon announced that it would offer to acquire 250 million shares of common stock in GGP for $10.00 per share, or $2.5 billion in the aggregate, matching the BFP offer.\footnote{Amended and Restated Cornerstone Investment Agreement, effective as of March 31, 2010, between REP Investments LLC (as predecessor to Brookfield Retail Holdings LLC), an affiliate of Brookfield Asset Management Inc. and Old GGP (previously filed as Exhibit 10.1 to New GGP’s Current Report on Form 8-K dated November 9, 2010 which was filed with the SEC on November 12, 2010).} Simon also agreed to backstop the GGO rights offering as contemplated in the Brookfield-sponsored recapitalization, and would otherwise enter into agreements on the same basis as Brookfield with respect to the recapitalization of GGP and the spin-off of GGO. Simon stated in the bid that it would not receive any warrants or similar fees with respect to its commitment to invest in GGP and that it would seriously consider adding co-investment partners. It also stated that there would be no financing contingency to Simon’s obligations to close the transaction and the terms of Simon’s offer would be substantially identical to the BFP offer.\footnote{Simon Property Group Press Release, April 14, 2010.}

**Additional Improvement to Second Bid**

April 21, 2010: Simon announced that it had received $1.1 billion in capital commitments from ING Clarion Real Estate Securities, Oak Hill Advisors, RREEF and Taconic Capital Advisors to support its recapitalization of GGP.\footnote{Simon Property Group Press Release, April 21, 2010} These commitments, in addition to the previously announced $2.5 billion proposed investment by Simon and a $1 billion co-investment commitment by the hedge fund firm Paulson & Co., brought Simon’s proposal to the same level as the Brookfield-sponsored offer but without the equity 

---

Paulson & Co.

Paulson & Co. is an employee-owned, hedge fund headquartered in New York and founded in 1994. The firm provides services to investment vehicle pools and manages accounts for banking institutions, corporations and pension and profit sharing plans. Its founder and President, John Alfred Paulson, became a billionaire by short-selling subprime mortgages in 2007, and made $3.5 billion that year. In 2010, he beat a hedge-fund record by making nearly $5 billion.
warrants that would have to be offered under that plan.

April 22, 2010: Simon announced several improvements to its second bid, including:
- agreed to backstop a $1.5 billion credit facility necessary for GGP to close and emerge from bankruptcy, and
- would agree to limits on its governance rights, including a cap on its voting rights at 20%, the right to designate only two of nine GGP board members (as opposed to three of nine in the Brookfield plan). [SPG's proposed nominees, Dale Anne Reiss (Ernst & Young partner) and Peter Linneman (Wharton real estate professor), were both highly respected in the real estate industry and were not affiliated with SPG.]

Simon highlighted the lack of warrants in its plan, deriding them as “expensive and highly dilutive.” In response to Simon’s announcement, Brookfield CEO Bruce Flatt said that Brookfield was unwilling to revise its proposal by reducing the amount of warrants it would receive. Brookfield strongly reiterated its position that it needed the warrants for protection and compensation. Brookfield stated that it would not participate further in any process involving a transaction with GGP unless the approval order was entered and the warrants were issued on the terms and in the timeframe contemplated in earlier agreements with GGP. Fairholme and Pershing Square also said that they would not revise their offers regarding the warrants.

Final Revised Brookfield-Led Proposal

May 3, 2010: The BFP team announced a revised recapitalization proposal for GGP. Brookfield, Pershing Square and Fairholme would commit $6.5 billion of new equity capital at a value of $10.00 per share for New GGP and $250 million to backstop a rights offering for GGO at $5.00 per share.

The principal changes from the original proposal submitted by the Brookfield-led investors included:

---

77 The cost of the 120 million warrants for Brookfield, Fairholme and Pershing - which any company that later acquired General Growth with a higher bid would have to buy back - is estimated to be worth of over $400 million. (see Appendix A for detailed calculation).
- An additional $2.0 billion of capital to be raised at closing, including $1.5 billion of debt and a $500 million equity rights offering;

- The interim warrants to be issued to the investment parties as part of the transaction vested over time (rather than immediately) as follows:
  - 40% upon Bankruptcy Court approval,
  - 20% on July 12th, (the day GGP was expected to file the Plan and Disclosure Statement with the bankruptcy court), and
  - remainder would continue to vest pro rata through expiration of commitment;

- The permanent warrants included 120 million 7-year warrants for reorganized GGP stock at a strike price of $10.75 (for Brookfield) and $10.50 (for Pershing Square and Fairholme) and 80 million 7-year warrants for GGO at a strike price of $5.00; and

- Brookfield agreed to enter into a strategic relationship agreement to use GGP as its primary platform for any regional mall opportunities in North America.

**Simon’s Best-and-Final Offer**

May 6, 2010: Simon made its best-and-final offer to acquire GGP in a fully financed transaction valued at $6.5 billion, or $20.00 per share. This price consisted of $5.00 in cash, $10.00 in shares of SPG common stock and $5.00 in shares of GGO. The acquisition would also include full cash recovery for unsecured creditors.

In addition to its acquisition offer, Simon also improved its previously submitted proposal to sponsor a GGP recapitalization by increasing the price per newly issued GGP share to $11.00, equivalent to 227.3 million shares for a total of $2.5 billion. This change in the per share investment price would also apply to an SPG-sponsored recapitalization to the extent it is effected as a backstop of Simon’s proposed acquisition of GGP.

Besides ING Clarion Real Estate Securities, Oak Hill Advisors, RREEF and Taconic Capital Advisors, Simon was also joined by Blackstone Real Estate Advisors for its final offer. Since February 18th and after GGP rejected Simon’s initial offer, Simon had

**Blackstone Group**

Blackstone Group, the world’s biggest private equity firm, has been a world leader in private equity real estate investment with $25 billion on capital invested in real estate worldwide and $11 billion in available capital for future real estate investments.

Blackstone had been seeking mall investments, said Cedrik Lachance, senior analyst with Green Street Advisors. The company bought stakes in two retail centers in 2009 as part of a joint venture with Glimcher Realty Trust.
been in preliminary talks with Blackstone about making a potential joint bid for GGP. Finally, on May 6th, Blackstone joined the Simon bid officially, committing more than $1 billion to support the takeover bid.

Simon also came up with a plan to address anti-trust issues raised by the potential merger, by divesting certain assets from the combined portfolio. However, Simon stated that it would not participate in the bidding process if GGP issued warrants associated with the Brookfield-sponsored recapitalization.\(^79\)

According to Pershing Square, Simon’s recapitalization offer no longer included any of the original investors: Paulson & Co, ING Clarion, Taconic, Oak Hill and RREEF (but all joined the takeover plan). Furthermore, according to Pershing Square, the offer only provided $2.5 billion of equity and no longer backstopped the rest of the required capital or debt required.\(^80\) Given that Simon’s recapitalization plan would be subject to a serious anti-trust investigation, the lack of capital commitment took this offer out of contention as a viable alternative in Pershing Square’s estimation.

**Bidding Is Completed | GGP Must Decide**

At this point, GGP had two offers on the table:
- Simon’s takeover / acquisition offer, and
- BFP’s recapitalization offer.

We will analyze the above two offers in detail in the following paragraphs from both the perspective of the bidders and of GGP.

**Rationales for Simon versus BFP**

**From the Perspective of Bidders**

1. *Strategic Reasons*

Simon was GGP’s largest direct competitor with a portfolio including regional malls, premium outlet centers, community / lifestyle centers, and international properties. Already the largest mall owner in the U.S. by a significant margin, Simon would own


\(^{80}\) Letter from Pershing Square Capital Management to General Growth Properties Board of Directors, May 7, 2010.
525 malls with a total of 450 million square feet of retail space if its offer was accepted.\textsuperscript{81} In addition, Simon would be able to acquire some of the highly sought after “trophy” malls in GGP’s portfolio. Such concentration may have resulted in a near-monopoly position for Simon in U.S. regional malls.

Brookfield had long coveted retail properties in the U.S. In early 2007, the company tried to buy the Mills Corp., a shopping mall operator struggling with accounting issues and troubled developments. Brookfield thought it had a deal, but Simon trumped it by offering a 20\% premium and won the bid.

Roughly a year later, when GGP started struggling, Brookfield approached it with an offer to inject capital and help with restructuring.\textsuperscript{82} Brookfield sent 150-person due-diligence team to examine its properties and meet management, but any deal at that time fizzled before GGP filed bankruptcy. In October 2009, sensing another opportunity, Brookfield bought roughly $1 billion of General Growth’s unsecured debt at a deep discount, giving it a voice among General Growth’s creditors.

As Brookfield CEO wrote Bruce Flatt on April 19, 2010,\textsuperscript{83}

\begin{center}{\textit{Brookfield does not have a North American retail property platform and, given its scale, GGP would therefore represent the natural platform for opportunities in the retail sector available in our broader global organization.}}\end{center}

Both Fairholme and Pershing Square were bullish on regional malls and their stable cash flows. In addition, both investors believed that GGP was a best-in-class operator with a top-quality mall portfolio and a valuable ownership/management platform.

Additional motivations included:

\begin{quote}
\textsuperscript{82} According to John Bucksbaum, Brookfield first approached GGP during Summer 2008
\textsuperscript{83} Letter from Brookfield Asset Management to General Growth Properties Board of Directors, April 19, 2010.
\end{quote}
- Irreplaceable Core Assets with Growth Potential: Fairholme is typically thought of as a medium- to long-term investor and the potential value growth for GGP upon its emergence from bankruptcy was likely very appealing.

- Pershing Square’s Continued Investment: Pershing Square provided $375 million in DIP financing (at a 15% interest rate), held $434 million in unsecured debt as well as 25% of the equity in GGP. Pershing Square’s continued investment in GGP blocked others from diluting their ownership interest, but perhaps more importantly provided Pershing Square with a participation in company decisions via board seats.

2. Financial Reasons

Simon - Synergies
Significant economies of scale exist in the mall business – “bigger is better” is believed to be true when a nationwide platform offers higher operation efficiency. Most believe that SPG would be able to capitalize on added leverage in lease negotiations and reduced expenses if the company were to acquire GGP’s portfolio. Any loss that Simon might incur as a result of its GGP investment would likely be offset by the competitive benefits that would naturally occur in Simon’s primary business.

<table>
<thead>
<tr>
<th>Synergies</th>
<th>Value (in $mil)</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Better Long-term NOI growth</td>
<td>$71*</td>
<td>Assuming SPG adds 3% to MallCo. NOI*</td>
</tr>
<tr>
<td>G &amp; A Savings</td>
<td>$160*</td>
<td>Regional costs, support staff, public company fees, etc.*</td>
</tr>
<tr>
<td>Total</td>
<td>$231</td>
<td>Median of SPG’s implied cap rate: 6.7% as of March 2010.</td>
</tr>
<tr>
<td>Synergy Value</td>
<td>$3,448</td>
<td>[231/.067=3447.76]</td>
</tr>
<tr>
<td>Synergy Value per Share</td>
<td>$11</td>
<td>[3447.76/313,831 outstanding shares=10.99]</td>
</tr>
</tbody>
</table>

An Estimate of the Synergetic Value of SPG/GGP Merger

* Green Street Advisor estimation as of March 19th, 2010 – Higher REIT Prices = Higher Value for GGP, by Cedrik Lachance, Jim Sullivan and Andrew Johns

BFP - Warrants
- If the BFP bid was accepted, the GGP Board would have agreed to grant 7-year warrants in both New GGP and GGO to the sponsors. Until the company emerged from bankruptcy, the warrants effectively served as a “break-up” fee against a “topping” bid. Post-emergence, the warrants provide a purchase option vis-a-vis the two companies. Therefore, to GGP, the warrants serve to dilute...
future upside in asset value increases. If the warrants were exercised, equity capital being provided to the company would be at a price likely to be below NAV.

- Given the seven-year term of the warrants, this deal point also provided significant upside for BFP in the event of price appreciation via NOI growth, merger, etc.

As described more fully in Appendix A, we estimate the value of the warrants – as of the issuance date – at approximately between $450 million to $1000 million (the large range is due to the sensitivity of the warrants’ estimated value to the assumptions). This amount represented approximately 4.68\% up to 10.40\% of the $9.62 billion in equity value. Average “break-up” fees typically range from 1\% to 3\% of the transaction size for mergers and acquisitions; this fee was on the higher end of that spectrum. Yet, GGP deemed the value of the BPF warrants not large enough to be an impediment to a deal.

**From the Perspective of GGP**

1. **Operational Rationale**

GGP’s apparent preference for operational independence led the board to prefer the BFP offer over the Simon takeover bid – all else being equal. While Simon stated in its offer that it would keep GGP independent, there was nonetheless significant uncertainty about the future. As the two companies had many areas of operational overlap, it seems difficult to believe that Simon would not avail itself of the synergistic benefits from a full merger (as illustrated above).

Moreover, concerns were voiced about Simon’s alignment of interest. Said Flatt, 85

> We believe that a significant toe-hold position by GGP’s largest direct competitor will be a material ongoing impediment to the prosperity of the company. A significant shareholding by Simon will inevitably create uncertainty as to whether GGP will remain an independent company for any length of time.

As Ackman put it in a letter to GGP’s Board on May 7, 2010, 86

---

84 See detailed calculations in Appendix A
85 Letter from Brookfield Asset Management to General Growth Properties Board of Directors, April 19, 2010.
SPG is a chief competitor and benefits from GGP’s failure. This alone is sufficient reason for the Board to decide in its business judgment not to put the company in a position where the only sponsor of its exit from bankruptcy is its chief competitor.

2. Financial/Economic Reasons

*Exhibit #47*

<table>
<thead>
<tr>
<th>Offer-Terms Comparison: SPG vs. BPF</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>New GGP</strong></td>
</tr>
<tr>
<td>------------</td>
</tr>
<tr>
<td>SPG</td>
</tr>
<tr>
<td>BFP</td>
</tr>
</tbody>
</table>

Simon’s offer clearly provided higher value to GGP’s equity holders, although the presence of a 67% stock component to its offer did add a degree of uncertainty. However, the stock component included in the Simon bid did offer GGP shareholders a chance to participate in SGP’s potential upside.

From the perspective of GGP’s creditors, however, BFP’s offer was clearly superior. They were to be paid the same amount under either plan, but with BFP they would receive cash sooner and with a higher degree of certainty. Since their cooperation with any plan was key to GGP’s successful emergence from bankruptcy, their role in this process cannot be overlooked.

3. Legal Reasons (Anti-Trust Concerns)

The GGP/SPG combination would place roughly 50% of the 300 “A” quality malls in the U.S. under the management of one company. While the properties would account for only a fraction of the retail real estate in the U.S., they would represent a significant portion of the rents paid by large retailers that use malls as a main distribution channel. This potential monopolistic concentration resulting from a SPG/GGP merger would likely, have raised concerns at the Federal Trade Commission (FTC).

---

At the time of the SPG offer for GGP, the FTC was reviewing the proposed $2.3 billion merger between Prime Outlets and SPG due to concerns that SPG would control too many outlet malls. The Prime/SPG deal was announced in December 2009, but took nine months to close in part due to FTC involvement. As part of the final settlement with the FTC, SPG was required to modify leases or divest property out of concern for monopolistic competition in three of the markets where the 22 Prime centers are located.

Said Brian Weinberger, antitrust lawyer at Buchalter Nemer, 87

*There is a strong likelihood that this proposed merger will get a good look from regulators. Any time you have the largest and second largest companies combining, you are going to have antitrust issues. Fears are that the potential of the combined entity to control rents and because so many of the "B" & "C" level malls will be closing, the owners of the "A" malls will have more and more of a monopoly position because the tenants will no longer have alternative locations to if the rents get too high.*

Simon insisted that a Simon/General Growth combination would have few, if any, antitrust issues because malls compete with many other retail venues, including big-box stores (like Wal-Mart), department stores, and online stores. Simon also argued that the varying classes of malls present in the portfolio would negate any anti-trust issue, as these malls cater to different classes of retailers. Additionally, a Simon representative argued that a combined Simon/GGP could not arbitrarily raise rents, because “rents are determined by the quality of the real estate, not who owns it.” 88 Although no specific retailer publically opposed the merger, it was speculated that retailers feared that exposing their names would result in retaliation by Simon.

Simon proposed to sell up to 10 malls to address the potential anti-trust concerns, while Simon confirmed that it would not part with General Growth’s higher-quality malls (defined roughly as malls with sales of more than $450 per square foot). One possible solution would have been for Simon to divest properties in cities where the two companies have overlapping concentrations.

If everything else was equal, GGP’s board, as well as the bankruptcy judge, might have leaned toward accepting the BFP deal to avoid the significant uncertainty that could be

associated with an FTC review. In this regard, officials with the National Retail Federation, the largest trade association for U.S. retailers, indicated that large members complained to FTC that the deal would give Simon so much market clout that it could dictate higher rents and sway store openings and closings. 89

4. Bankruptcy Context

Since both plans offered similar reductions in GGP’s corporate debt and overall leverage, evaluating the timing and certainty of each bid was an extremely critical element in GGP’s decision. Any delay or uncertainty in the bidders’ plan presented a serious risk to the company’s future as a stand-alone operation. The potential antitrust issues were a major concern, as they could delay the transaction for months. If they were ultimately required to reformulate a reorganization plan, the extra cost could run as high as an additional $250 to $300 million. 90 Moreover, the capital commitments of Pershing Square and Fairholme in conjunction with Brookfield’s investment provided a higher degree of certainty in closing the transaction.

Further delay could also expose the plan to the risk of change in market conditions. Turmoil in the equity markets further pushed the board’s focus towards certainty of closing, apparently making the BFP offer even more attractive.

Additional benefits of the Fairholme/Pershing Square proposal as highlighted in their term sheet included: 91

- Flexibility to Manage Cost of Capital: Due to the claw-back provision, GGP could reduce the equity amount from Fairholme/Pershing Square by up to 50% in the event the Company was able to raise equity at a lower cost of capital.

---

90 The additional cost consisted mostly of advisory fees.
91 Fairholme and Pershing Square Term Sheet to General Growth Properties, March 8, 2010.
- Speed and Funding Certainty: As the Company’s largest stakeholders, Fairholme/Pershing Square required no funding conditions including due diligence or antitrust investigation. Therefore, Fairholme/Pershing Square did not believe that any third party could provide similar speed and certainty of funding.

- No Exclusivity, Freedom to Accept a Better Proposal: Fairholme/Pershing Square argued that their terms contained no break-up fees or other “deal protections” which let GGP free to pursue better alternatives. However, the Fairholme warrants effectively served as a break-up fee when the Brookfield/ Fairholme/ Pershing Square proposal was awarded “stalking horse” status by the bankruptcy court.

- No Cash Fees: The Fairholme/Pershing Square deal did not require any fees other than reimbursement for out-of-pocket expenses and the seven-year warrants to Fairholme at a roughly $15.00 ($10.75+$5.00 or $10.50+$5.00) strike price.

**BFP Offer Chosen**

May 7, 2010: BFP’s final recapitalization plan, which was supported by the GGP board, was granted stalking horse status by the bankruptcy judge. Stalking horse status establishes the offer as the baseline that competing bidders must beat. Pursuant to the BFP offer, Brookfield, Pershing Square and Fairholme received an estimated $300 to $650 million worth of warrants, which served as the break-up fee upon the stalking horse status being granted. Simon, as stated previously in its final bid, withdrew its offer after the warrants were issued.

**New GGP and Howard Hughes Corporation (HHC)**

In GGP’s attempt to maximize shareholder value, there were a number of potential rationales for why GGP should have been split into two companies:

- market driven,
- debt overhang,
- clientele effect,
- ease of execution,
- focused operational strategy,
- key-employee Retention, and
• tax efficiencies.

**Market Driven**

The equity market tends to reward pure-play companies with more favorable multiples than those with diversified holdings. The transitional assets that would be held by HHC are typically not fully valued in the marketplace because investors principally value REITs based on current cash flow. The HHC assets only generate a fraction of present NOI, with an uncertain contribution to future NOI and value growth. Thus, the investor profile for HHC is in stark contrast to the equity holders in New GGP that desire transparent value, stable earnings and consistent growth. The characteristics of HHC are perhaps most relative to homebuilder stocks.

**Debt Overhang**

Debt overhang is when an organization has existing debt so great that it cannot easily borrow more money, even when that new borrowing is actually a sound investment (i.e., has a positive net present value). Debt overhang became more common during the recent financial crisis, and GGP was no exception. For example, several of GGP’s “A” malls failed to have their loan extended or refinanced due to debt overhang in late 2008.

**Clientele Effect**

The clientele effect assumes that different investors are attracted to different investment profiles of companies, and that when a company’s investment profile changes, investors will adjust their stock holdings accordingly. As a result of this adjustment, the stock price will move. In the case of GGP, the mall operating business and MPC development business attract different investor types. Prior to splitting the two businesses, investors that prefer pure-play companies may have avoided investing in GGP. After splitting into two separate businesses, there may be more investors investing in new GGP and HHC in aggregate.

---

92 The term “debt overhang” refers to an organization’s inability to issue equity due to the book value of its debt exceeding the fair market value of the total enterprise. For example, please see: Richard Brealey and Stewart Myers, *Corporate Finance: Capital Investment & Valuation*, McGraw-Hill/Irvin, 2010.
Ease of Execution

Similar to a classic “good bank/bad bank” structure that was used by financial institutions to separate performing and non-performing assets, GGP’s core and non-core businesses were to be segregated in the hopes that offering more finely defined risk/return strategies would improve each business’s ability to attract future capital. Since the market has long preferred GGP’s separate reporting for its malls and MPC/land development segments, splitting GGP into two companies became apparent.

Focused Operational Strategy

Many assets in HHC’s portfolio have unique, complex and management-intensive attributes due to their exit strategy, lease-up (or sale) progress, entitlement stage and end-user. Therefore, these assets require a very different skill set and much more human capital per asset than a traditional mall business. This strategy clearly benefits both New GGP and HHC as each company can attract and retain key executives that are best suited to maximize shareholder value for each portfolio.

Key-Employee Retention

With two separate companies, GGP was thought to be in a better position to retain key employees – because the financial performance (including stock prices) of the different business models would be more closely aligned with management’s objectives.

Tax Efficiencies

New GGP would continue to own and operate most of the retail centers and divest non-core assets. Its business plan also contemplated the transfer of certain non-performing retail assets to applicable lenders in satisfaction of secured mortgage debt. New GGP would principally be a real estate operator (and, occasionally, developer) of performing regional malls with, at December 31, 2010, an ownership interest in 180 regional shopping malls (including "Special Consideration Properties") in 43 states as well as ownership interests in other rental properties. New GGP would be organized as a REIT for future tax years.93

HHC is a publicly traded real estate operating company (or “REOC”) created to specialize in the development of MPCs, the redevelopment or repositioning of operating real estate assets, and other strategic real estate opportunities in the form of entitled and unentitled land and other development rights. HHC was not structured as a REIT, but instead as a REOC – offering HHC the flexibility to maximize the value of its real estate portfolio.

Below is a diagram/list of the assets that were retained by HHC:  

Exhibit #48

New GGP Board of Directors and Management Team

---

94 HHC by segments: Master Planned Communities — includes the development and sale of land, in large-scale, long-term community development projects in and around Las Vegas, Nevada; Houston, Texas and Columbia, Maryland. This segment also includes certain office properties and other ownership interests owned by The Woodlands Partnerships as such assets are managed jointly with The Woodlands Master Planned Community. Operating Assets — includes commercial, mixed use and retail properties currently generating revenues, many of which we believe there is an opportunity to redevelop or reposition the asset to increase operating performance. Strategic Developments — includes all properties held for development and redevelopment, including the current rental property operations (primarily retail and other interests in real estate at such locations) as well as our one residential condominium project located in Natick (Boston), Massachusetts. Howard Hughes Corporation, Form 10-Q August 2011.
New GGP filed an S-11 on July 15, 2010 indicating their issuance of new common stock as the parent company to old GGP. In the disclosure, GGP indicated that Brookfield’s three board selections would be current Brookfield executives Ric Clark, Bruce Flatt and Cyrus Madon. Adam Metz and Tom Nolan would remain on the board at this time and the remaining four positions remained open. The Board would not become official until the company exited bankruptcy.

On July 22, 2010, New GGP appointed Steven J. Douglas as Executive Vice President and Chief Financial Officer. Steven Douglas was previously at Brookfield Property Corporation for over 16 years, most recently serving as President. Mr. Douglas succeeded Ed Hoyt who had been GGP’s interim Chief Financial Officer since 2008.

On September 7, 2010, New GGP announced an executive transition plan for both Adam Metz and Tom Nolan. Metz and Nolan would remain in their positions as CEO and COO, through the remainder of the year until the company completed its emergence from bankruptcy. This announcement served as one of the final chapters of the nineteen-month process in which Metz and Nolan are credited with the largest real estate bankruptcy restructuring in history.

Adam Metz commented in the press release issued by GGP that day:

We (Tom and I) are pleased to help position the company for the next chapter in its growth story and ensure a smooth transition for employees, shareholders and tenants while the Board of Directs selects a permanent management team.

Below is a summary of the compensation to Metz and Nolan during the duration of their employment as Chief Executive Officer and President and Chief Operating Officer, respectively:

---

Exhibit #49

---

Upon bankruptcy emergence, Metz and Nolan would earn $44.3 million and $32.7 million respectively under GGP’s Key Employee Incentive Plan (“KEIP”). The KEIP payout formula was allocated with 40% of the incentive based on the debt recovery amount and 60% on the market recovery value of the equity as of 90 days after emergence. The KEIP plan was approved by GGP’s Board in July 2009 and by the Bankruptcy Court in October 2009 based on the full support and recommendation of the official unsecured creditors’ committee, the official equity committee and the United States Trustee.

The following month, on October 5, 2010, New GGP announced its nine-member Board of Directors. All Directors would be subject to annual re-election whereas Old GGP directors previously served staggered, three-year terms.

1) Ric Clark, Chairman – Chief Executive of Brookfield Properties
2) Mary Lou Fiala – Former President and COO of Regency Centers
3) Bruce Flatt – Senior Managing Parter and Chief Executive of Brookfield Asset Management
4) John Haley – Current GGP board member
5) Cyrus Madon – Senior Managing Partner of Brookfield Asset Management
6) Adam Metz
7) David Neithercut – President and Chief Executive of Equity Residential

Source: Company Filing 14A on March 15, 2011

Notes:
[1] Key Employee Incentive Payment (“KEIP”) based on bankruptcy plan recoveries to all unsecured creditors and third party equity holders.
[2] Cash Value Added Incentive Compensation Plan (“CVA”) is GGP’s incentive plan for all full-time employees.
[3] Includes severance, accrued vacation, reimbursement for medical expenses and relocation payments.
[4] Does not include future payouts from option grants

General Growth Properties Form 14A filed March 15, 2011.
Among the nine directors, John G. Schreiber’s seat is especially worth of mentioning. Recall that in Simon’s final offer on May 6, 2010, Blackstone committed more than $1 billion to support the takeover bid. After Simon withdrew its bid upon the BFP offer granted the “stalking horse” status, Blackstone again sought an investment in GGP. GGP disclosed the $500 million Blackstone investment in an 8-K filed with the SEC on August 18, 2010. Blackstone contributed $500 million towards $6.5 billion in equity pledged by BPF. Under the agreement, Blackstone will receive a 5% stake in GGP and a seat on its board. The group also received 5 million of the 120 million GGP stock warrants being granted to BPF.

In part to deter Blackstone from making a competing bid for all of GGP, BFP promised Blackstone a board seat. However, GGP refused to expand its board to add that seat. To resolve the issue, Bill Ackman agreed to give his seat to Blackstone’s Co-Founder, John Schreiber. Conspicuously absent from this list was John Bucksbaum, who was not invited to join the Board.

Soon after the announcement of the New GGP Board, Green Street Advisors published the following in a report:

In its pre-bankruptcy incarnation, GGP had one of the worst corporate governance structures in the entire REIT industry. (New) GGP is expected to have one of the best corporate governance structures in the mall REIT sector after emerging from bankruptcy. The most important improvement made was the decision to establish a de-staggered board, the single-most important element of a shareholder-friendly corporate governance structure. In addition, the board of directors includes an impressive group of real estate professionals and executives with extensive experience in large organizations.

---

100 Green Street Advisors, “A New Beginning (GGP),” November 7, 2010.
Emergence from Chapter 11

On October 21, 2010, GGP announced that Judge Allan Gropper of the U.S. Bankruptcy Court had officially approved the company’s reorganization plan as outlined in the final BFP proposal.

After an extensive search spanning several months, New GGP named Sandeep Mathrani as Chief Executive Officer on October 28, 2010. Mathrani previously served as President of the retail platform at Vornado Realty Trust since 2002. At Vornado, Mr. Mathrani oversaw an approximately 21.9 million square foot portfolio with an estimated value of $8 billion. Both Mathrani and Vornado are well respected in the real estate community and the appointment of Mathrani was generally viewed favorably. Green Street Advisors wrote about the hiring of Mathrani:

> GGP recently appointed well-respected retail executive Sandeep Mathrani as CEO. While Mr. Mathrani comes to the job with strong credentials, he has never managed an organization of GGP’s size and he will need to prove himself on the job.  

Finally, on November 9, 2010, GGP announced that it had successfully completed the final steps of its financial restructuring and had emerged from Chapter 11 Bankruptcy. Adam Metz commented:

> Today marks the successful end of one chapter in GGP’s history and the beginning of another. Over the past nineteen months, we have taken extraordinary steps to remake GGP’s entire financial structure while at the same time refocusing our operations across all of our shopping mall properties.

In its historic restructuring, GGP remarkably produced the following results:

- consensually restructured approximately $15 billion of project-level debt,
- recapitalized with $6.8 billion in new equity capital commitments led by Brookfield Asset Management, Fairholme Funds and Pershing Square Capital Management,
- paid all creditor claims in full,
- achieved substantial recovery for all equity holders and

---

split the company into two separate and independent publicly traded corporations.

The announcement of bankruptcy emergence by GGP coincided with the completion of the spinoff of HHC through the distribution of shares of HHC common stock to holders of GGP stock (at a conversion rate of 0.098344). HHC was now a standalone company that would trade on the New York Stock Exchange beginning on the following day.¹⁰³

### HHC Board of Directors and Management Team

Pursuant to the terms of their investment agreement, Pershing Square was able to nominate two representatives to the board of directors of HHC and Brookfield was able to nominate one representative. As suspected, Bill Ackman had been named Chairman of the Board of HHC. On October 8, 2010, New GGP announced the nine-member Board of Directors for HHC (only eight members were announced as the ninth position was reserved for the Chief Executive Officer of HHC to be announced after the spin-off was to be completed):

1. Bill Ackman, Chairman
2. David Arthur – Managing Partner, North American Real Estate Investments of Brookfield Asset Management
3. Adam Flatto – President of the Georgetown Company
4. Jeff Furber – Chief Executive of AEW Capital Management
5. Gary Krow – President, CEO and Director of GiftCertificates.com
6. Allen Model – Co-Founder, Treasurer and Managing Director of Overseas Strategic Consulting Group, Ltd.
7. Scot Sellers – Chief Executive of Archstone
8. Steve Shepsman – Executive Managing Director and Founder of New World Realty Advisors
9. To-be-named Chief Executive Officer of HHC

The Board’s first priority was to identify a senior management team to run the company. On November 23, 2010, HHC named David R. Weinreb as Chief Executive Officer and Grant Herlitz as President. Both Weinreb and Herlitz had been working for HHC on a contract basis for the preceding months and were recruited from TPMC Realty, a Dallas,

Texas-based company that specializes in repositioning under-performing real estate assets.

Ackman commented in a press release issued by HHC that day:104

David assembled an exceptional team of real estate professionals who quickly evaluated our assets and prepared the company to emerge as an independent entity. David and Grant form an entrepreneurial leadership team that is tailor made for our needs. Bringing them on board gives us the benefit of their knowledge of our portfolio and allows the company to focus on maximizing the value of its assets for the benefit of shareholders.

Comparison with Simon

GGP was ultimately successful in exiting bankruptcy through its recapitalization plan. However, it is interesting to consider the what-if question of whether or not GGP equity holders would have in fact been better had they accepted Simon’s offer instead.

Exhibit #50

![GGP Stock Price vs. Annualized IRR]

Source: Bloomberg

The charts above show that despite a strong initial surge, GGP has overall trailed Simon since emerging from bankruptcy protection. While it is impossible to say exactly how a potential merger would have played out, the numbers provide an interesting potential counter-point to the story in 2010.
Impact to Bucksbaum Family

The Bucksbaum Family is one of the most successful real estate families in the country, having built GGP over a 50 year period. Based on public filings, the Bucksbaum’s ownership stake in GGP peaked at over $3.5 billion in 2006 and bottomed out at approximately $100 million in 2008, before climbing back to an estimated $1 billion in 2010.

Martin and Matthew Bucksbaum originally contributed 21 malls to GGP in 1993. In exchange for the contribution of these malls, the Bucksbaums received non-voting operating partnership units (OP units) in GGP. The Bucksbaums’ gain on the exchange of malls for partnership units was tax deferred as long as the partnership holds the property and the Bucksbaums hold the OP units. This structure is commonly referred to as an UPREIT.

The Bucksbaums held a total of 42,350,000 OP units for more than 15 years before eventually converting the OP units one-for-one into common stock on January 2, 2009 when the price of GGP fell to $1.42 per share, perhaps creating a tax liability slightly
larger than their cash investment basis from conversion. Below is a theoretical illustration:

**Exhibit #53**

Assumptions:
[a] Annual taxable net income (including depreciation) is equal to annual distributions.
[b] The 21 malls were originally contributed to GGP by the Bucksbaums in 1993 for $1.2 billion, with a cash gain of approximately $350 million and a deferred taxable gain of $600 million.

Source: Student calculations based on available public information.
### Comparison of Final BAM & SPG Offers at Present Day (as of 6/30/2011):

#### Final BAM Offer at $15.00 Per Share Total Consideration

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>New GGP Value</td>
<td>$ 10.00</td>
<td></td>
</tr>
<tr>
<td>SpinCo / HHC Shares</td>
<td>$ 5.00</td>
<td>$ 65.04</td>
</tr>
<tr>
<td>HHC Conversion Rate to Old GGP Shareholders</td>
<td>0.09834</td>
<td></td>
</tr>
<tr>
<td>HHC Share Price at 6/30/2011</td>
<td>$ 65.04</td>
<td></td>
</tr>
<tr>
<td>HHC Converted Share Price Value to Old GGP Shareholders</td>
<td>$ 6.40</td>
<td></td>
</tr>
<tr>
<td>New GGP Share Price at 6/30/2011</td>
<td>$ 16.69</td>
<td></td>
</tr>
<tr>
<td><strong>BAM Total Current Value to Old GGP Shareholders</strong></td>
<td>$ 15.00</td>
<td>$ 23.09</td>
</tr>
<tr>
<td><strong>BAM $ Total Value Increase</strong></td>
<td>$ 8.09</td>
<td></td>
</tr>
<tr>
<td><strong>BAM % Total Value Increase</strong></td>
<td>53.91%</td>
<td></td>
</tr>
</tbody>
</table>

#### Final SPG Offer at $20.00 Per Share Total Consideration

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>SPG Conversion Rate to Old GGP Shareholders</td>
<td>0.11670</td>
<td></td>
</tr>
<tr>
<td>SPG Share Price at 5/6/2010</td>
<td>$ 85.68</td>
<td></td>
</tr>
<tr>
<td>SPG Common Stock to Old GGP Shareholders</td>
<td>$ 10.00</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 5.00</td>
<td></td>
</tr>
<tr>
<td>SpinCo / HHC Shares</td>
<td>$ 5.00</td>
<td></td>
</tr>
<tr>
<td>SPG Conversion Rate to Old GGP Shareholders</td>
<td>0.11670</td>
<td></td>
</tr>
<tr>
<td>SPG Share Price at 6/30/2011</td>
<td>$ 116.23</td>
<td></td>
</tr>
<tr>
<td>SPG Common Stock to Old GGP Shareholders</td>
<td>$ 13.56</td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$ 5.00</td>
<td></td>
</tr>
<tr>
<td>SpinCo / HHC Shares</td>
<td>$ 6.40</td>
<td></td>
</tr>
<tr>
<td><strong>SPG Total Current Value to Old GGP Shareholders [3]</strong></td>
<td>$ 20.00</td>
<td>$ 24.96</td>
</tr>
<tr>
<td><strong>SPG $ Total Value Increase</strong></td>
<td>$ 4.96</td>
<td></td>
</tr>
<tr>
<td><strong>SPG % Total Value Increase</strong></td>
<td>24.81%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Student Calculations

Notes:

[1] Date of BAM final offer.
[2] Date of SPG final offer.
[3] Does not include any value premium due to synergies that may have been achieved between SPG and GGP.
SUBSEQUENT EVENT

On December 12, 2011, subsequent to the conclusion of our case study, the General Growth Properties board of directors approved a spin-off of its subsidiary Rouse Properties, Inc. (“Rouse”). GGP stockholders of record as of December 30, 2011 will receive approximately 0.0375 shares in the spun-off company. Rouse will be a separate company seeded with 30 GGP malls:

The Rouse name for this company is ironic: only Collin Creek and Southland Center are legacy Rouse malls acquired in the 2004 purchase and the new Rouse portfolio is comprised of lower quality assets. The portfolio was 88% occupied and tenants generated $279 average annual sales per square foot as of June 30, 2011 while the residual GGP portfolio will be 94% occupied with average annual sales per square foot of $494.105

In his first analyst conference call as CEO, Sandeep Mathrani stated his belief that “quality is better than quantity” and an intention to focus the company on high quality retail.106 He cited the fact that 87% of the company’s core NOI came from 125 of 169 malls in the portfolio and targeted a long-term goal of paring the portfolio down to 150 assets. The Rouse spin-off achieves that goal in a single transaction.

106 General Growth Properties, Fourth Quarter Earnings Conference Call, March 1, 2011
The company is capitalized by a senior-secured-term-loan of $433.5 million with a $50 million revolving credit facility a subordinated $100 million revolving credit facility issued by a Brookfield affiliate and a $200 million secondary offering of shares backstopped by Brookfield.

Rouse will be led by Andrew Silberfein, former EVP of Forest City Ratner Companies but much of the company’s leadership will be very connected to General Growth and Brookfield. Other top executives include former GGP employees: Michael McNaughton, Brian Harper and Brian Jenkins and Rael Diamond of Brookfield. Brookfield’s Steven Douglas (and former GGP CFO) and GGP COO Shobi Khan will be on the company’s board of directors.

The Rouse Company’s stated objective is to become the “national leader in the regional Class B mall space” and the company is expected to be acquisitive. Mathrani explained that “Rouse is being created to be a B-mall consolidator.” The Rouse portfolio assets are expected to benefit from increased attention and focus under the new platform. The Rouse investment prospectus notes $230 million in capital projects expected to be completed by 2015 to revitalize and reposition the assets including the conversion of under-performing in-line space to “big box” space. An incentivized and focused management team may generate value within these centers that could not have been achieved under the GGP umbrella, but the centers will lose the economies of scale benefits generated including weaker leasing leverage with tenants.

107 Rouse Properties, Inc. – SEC Registration Form 10 Amendment, November 2011.
109 Rouse Properties, Inc. – SEC Registration Form 10 Amendment, November 2011.
CASE QUESTIONS

1) Was it already too late for GGP in January 2008?

2) Was Pershing Square taking a prudent risk or did they get lucky?

3) Was it market irrationality that produced GGP’s apparently cheaper debt or was it justified?

4) Given the information below, comment on whether GGP should have been concerned about its funding concentration?

At the time, GGP filed bankruptcy; ten property-secured loans were in default. Of those, seven were CMBS loans. The other loans in default were Fashion Show, Palazzo and Prince Kuhio. In other words, of the 10 defaulted secured loans, seven were securitized and two were short-term loans originated with the intention of being securitized. In an analysis by Banc of America Securities, GGP had approximately $14.8 billion in CMBS loans at the time of bankruptcy. In addition to the total securitized debt, GGP’s securitized maturing debt in 2009 through 2011 is significantly larger than its non-CMBS debt.

GGP had indicated in 2004 that they were the largest CMBS user in the world. This had adverse repercussions during the financial crisis, as GGP represented a large percentage of CMBS maturities within the total CMBS market. JPMorgan, in late 2008, analyzed the amount of large securitized loans due in 2009 by borrower. GGP represented almost 30% of the large-loan secured market coming due.

---

110 Declaration of James Hastermann, AlixPartners – GGP Bankruptcy.
111 “General Growth Malls Back $14.8 billion of CMBS Debt,” Commercial Real Estate Direct.
112 Q4 2004 Quarterly Analyst Conference Call Transcript.
5) In the aftermath of the GGP bankruptcy, comment on what you think has been the consequences for secured lenders? See information below on reasons why secured lending can be priced below REIT bond prices.

CMBS loans are priced based mainly on the quality and cash flow of the underlying collateral versus the underlying corporate credit profile of the sponsor and, as a result, larger institutional-quality assets such as Class A malls receive high visibility and “full credit” financing (i.e., the full strength of the real estate, financial, and credit aspects of an asset are considered) under a secured debt structure.

Conversely, unsecured bonds are priced based on the corporate credit strength of the issuer relative to the unsecured bond marketplace, which contains issuers of every type of industry. As a result, the quality of the underlying assets that a company like Simon owns may not get the full attention of the marketplace. Bond traders are reviewing credit ratings and balance sheet fundamentals and rarely get down to property- and asset-level granularity during due diligence.

6) What are the pros and cons of secured and unsecured debt for REITs?

7) See the analysis below of two REIT’s; one that is unlevered and one that is levered at 65%:

<table>
<thead>
<tr>
<th></th>
<th>Unlevered REIT</th>
<th>Levered REIT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cap Rate</td>
<td>7.0%</td>
<td>7.0%</td>
</tr>
<tr>
<td>Annual Growth</td>
<td>1.0%</td>
<td>1.0%</td>
</tr>
<tr>
<td>Cost of Debt</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>NAV/Share</td>
<td>$10.00</td>
<td>$10.00</td>
</tr>
<tr>
<td>Leverage</td>
<td>0.0%</td>
<td>65.0%</td>
</tr>
<tr>
<td>Current FFO/Share</td>
<td>$0.70</td>
<td>$1.07</td>
</tr>
<tr>
<td>Forward 12 Month FFO/Share</td>
<td>$0.80</td>
<td>$1.36</td>
</tr>
<tr>
<td>Growth %</td>
<td>14.3%</td>
<td>26.7%</td>
</tr>
<tr>
<td>FFO Multiple</td>
<td>12.0x</td>
<td>12.0x</td>
</tr>
<tr>
<td>Share Price</td>
<td>$9.60</td>
<td>$16.29</td>
</tr>
</tbody>
</table>
Per this analysis, the levered REIT should trade at a share price of $16.29 vs. the unlevered REIT share price of $9.60. What, if any, Miller and Modigliani (M&M) principles are violated in this analysis?

8) Why would the board reject the SPG offer and accept the Brookfield conglomerate offer?

9) In a normal circumstance, what are some pros and cons of both secured and unsecured debt from a borrower’s perspective?

10) What are some pros and cons of both secured and unsecured debt from a lender’s perspective?

11) In this case, the judge restructured the debt associated with this deal. Is it possible to mitigate the risk of a cram-down or loss risk?

12) Describe the risk that GGP took by including its SPE borrowers in its bankruptcy filing and why it had to take this risk.

13) What were the movants’ motivations for filing the “Motion to Dismiss” on May 4, 2009?

14) What would have happened had Judge Gropper allowed the May 4, 2009 “Motion to Dismiss” to stand?

15) What additional protections would you imagine lenders might attempt to negotiate in future loan documents?

16) What are the possible and reasonable decisions GGP could have made during 2007 to 2010? Among all, which one(s) you think would most benefit a) GGP equity holders, b) debt holders, and c) management team, and why?

17) Assess the decisions that GGP had made during 2004 to 2010. How would you improve or challenge them if you were on the board?

18) What do you think caused GGP’s down fall?

19) From the GGP shareholders’ perspective, did GGP make the right decision to go with the BPF bid?
20) Besides spinning off HHC, would you suggest GGP divest or acquire any other assets post bankruptcy? What kind or which assets? What is the rational driving your recommendation?

21) General Growth’s 12/31/2008 10-K reflected:
   - $29.6 billion Total Assets
   - $27.3 billion Total Liabilities
   - $2.3 billion Stock Holder’s Equity & OP Units\(^{113}\)

   General Growth’s 12/31/2008 Supplemental 8-K listed the market value of GGP common stock and OP Units as $412.2 million. Why would there be a discrepancy between the market value of equity and the book value of equity of over 5x?

22) What are the implied cap rates for General Growth and Simon Properties Group as of 12/31/2008 and 12/31/2007? For this exercise make the following simplifying assumptions:
   - Assume that the book value of debt including the pro-rata share of unconsolidated joint venture debt is a fair representation of total debt.
   - Include the pro-rata share of unconsolidated joint venture net operating income in your calculation to match the total debt input.
   - For General Growth, adjust total market capitalization for the book value of the master planned community assets and utilize reported Real Estate Net Operating Income excluding master planned community NOI.

   What can we conclude from these calculations? [Hint: GGP and SPG’s 8-K Supplemental filings will be very useful sources for this exercise.]

23) What are the advantages of a Real Estate Investment Trust? What are the requirements to maintain this designation? Finally, what is the Five or Fewer Rule and why was the amendment of this rule a catalyst for the REIT IPO wave in the early 1990’s?

ACKNOWLEDGEMENTS

\(^{113}\) Note – The GGP 12/31/2008 Balance Sheet includes $2.5 million in consolidated minority joint ventures included in Minority Interest is $508.8 million. This amount is ignored as immaterial for this analysis.
Professor Pagliari and the students would like to thank:

Gary Axelrod, Latham and Watkins LLP
Roger Barber, Independent Consultant
Joel Bayer, O’Connor Capital Partners
Marshall Bennett, Marshall Bennett Enterprises
John Bucksbaum, Private Investor / Owner /Developer
Michael Caron, Lyon & Caron, LLP
Lou Conforti, UBS O’Connor
Shane Dineen, Pershing Square
John Hofmann, KeyBank Real Estate Capital
Ryan Huddlestun, Waveland Financial
James Kammert, Harrison Street
Roy Katzovicz, Pershing Square
Mike Kirby, Green Street Advisors
Adam Metz, TPG
Scott Matrenec, AlixPartners, LLP
Scott Miller, Sears Holdings Corporation
Les Morris, Simon Property Group
Thomas Nolan, Spirit Finance
David Oakes, Developers Diversified Realty
Brian Oleniczak, Mesirow Financial
Andrew Reiken, Graycliff Capital Partners, LLC
Stuart Rozen, Mayer Brown LLP
David Simon, Simon Property Group
Seth Singerman, Singerman Real Estate, LLC
Doug Traynor, Aareal Capital Corporation
Tad Wefel, Klaff Realty LP
Lori Wittman, Ventas Inc.

However, any errors or omissions are the sole responsibilities of the authors. We recognize that there have been many others who have provided guidance on this case study along the way from idea inception to final production that have not been mentioned outright. Our sincerest thanks go to each and every one of you. Your contributions were invaluable to us for the successful completion of this project.
APPENDICES

Appendix A

Estimation of Warrants Value based on Black-Scholes Option Pricing Model

As we have highlighted in the report, the value of the warrants GGP would grant BPF (provided the BPF being approved by the Bankruptcy Court) has been an important factor when evaluating the offers from Simon and BPF. Using the parameters laid out in the bankruptcy documents, we estimate the warrants value by applying the Black-Scholes Option Pricing Model.

Model Inputs:
S = Underlying Security Price
k = Exercise Price
σ = Volatility
r = Risk free rate
T-t = Time to Maturity
C = Call option value per underlying share
Z = number of shares underlying warrants

Black-Scholes Formula

The value of a call option for a non-dividend paying underlying stock in terms of the Black–Scholes parameters is:

\[ C(S_t, t) = S_t N(d_1) - k \exp(-r(T - t))N(d_2) \]

where

\[ d_1 = \frac{\ln\left(\frac{S_t}{k}\right) + \left(r + \frac{\sigma^2}{2}\right)(T - t)}{\sigma \sqrt{T - t}} \]

\[ d_2 = d_1 - \sigma \sqrt{T - t} \]

and \(N(.)\) is the cumulative standard normal distribution function

Total Warrants Value = \(C \times Z\)

We used the terms between GGP and BFP (as stated below) and additional assumptions based on market data as the model inputs to calculate the call option value presented by the warrants.
Warrants Terms

<table>
<thead>
<tr>
<th>Post-Emergence Warrant Terms &amp; Valuation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Brookfield</strong></td>
</tr>
<tr>
<td><strong>New GGP Warrants</strong></td>
</tr>
<tr>
<td># of Shares</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Strike Price</td>
</tr>
<tr>
<td>Warrant Value per Share</td>
</tr>
<tr>
<td>Total Estimated Value</td>
</tr>
<tr>
<td><strong>HHC Warrants</strong></td>
</tr>
<tr>
<td># of Shares</td>
</tr>
<tr>
<td>%</td>
</tr>
<tr>
<td>Strike Price</td>
</tr>
<tr>
<td>Warrant Value per Share</td>
</tr>
<tr>
<td>Total Estimated Value</td>
</tr>
<tr>
<td><strong>Total Value</strong></td>
</tr>
</tbody>
</table>

(a) Assumes annual volatility of share price equal to 20%.
(b) Assumes annual volatility of share price equal to 30%.

Key Assumptions:

For the underlying security prices for New GGP and HHC, we used $10 per share and $5 per share, respectively, per the BPF bid. The terms state that the warrants’ life time is 7 years, with 6.5 years left upon issuance. And accordingly, we used an interpolated estimate of the yield to maturity on the seven-year U.S. Treasury bond as of May 6th, 2010 for risk-free interest rate. Dividends were, for simplicity, assumed to be $0 per share for both New GGP and HHC shares. The volatilities of New GGP as estimated by an Independent Financial Expert engaged to make the calculation for GGP was 20%, and that of HHC was 30%. 114

<table>
<thead>
<tr>
<th>New GGP Shares</th>
<th>HHC Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Share Price</strong></td>
<td><strong>Dividend per share</strong></td>
</tr>
<tr>
<td>$10.00</td>
<td>20%</td>
</tr>
</tbody>
</table>

Sensitivity Analyses:

Using the volatility suggested by the Independent Financial Expert, we estimate that the warrants worth of approximately $500 million. However, given the difficulty of estimating the volatility of the overall market and the particular uncertainty of the two new companies, the value of the warrants could range from $450 million to $1,000 million based on various underlying stock price and volatility assumptions. The above chart illustrates the sensitivity of the warrants value to changes of the volatility and underlying share price assumption.

<table>
<thead>
<tr>
<th>Percentage of Underlying Share Price</th>
<th>140%</th>
<th>130%</th>
<th>120%</th>
<th>110%</th>
<th>100%</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$21.00</td>
<td>$19.50</td>
<td>$18.00</td>
<td>$16.50</td>
<td>$15.00</td>
</tr>
<tr>
<td>75%</td>
<td>$976.07</td>
<td>$828.90</td>
<td>$686.52</td>
<td>$550.74</td>
<td>$423.92</td>
</tr>
<tr>
<td>80%</td>
<td>$984.99</td>
<td>$839.27</td>
<td>$698.37</td>
<td>$563.97</td>
<td>$438.22</td>
</tr>
<tr>
<td>85%</td>
<td>$994.69</td>
<td>$850.29</td>
<td>$710.72</td>
<td>$577.52</td>
<td>$452.66</td>
</tr>
<tr>
<td>90%</td>
<td>$1,005.07</td>
<td>$861.89</td>
<td>$723.50</td>
<td>$591.33</td>
<td>$467.19</td>
</tr>
<tr>
<td>Percentage of Estimated Volatility</td>
<td>95%</td>
<td>100%</td>
<td>105%</td>
<td>110%</td>
<td>115%</td>
</tr>
<tr>
<td></td>
<td>$1,016.05</td>
<td>$873.98</td>
<td>$736.64</td>
<td>$605.36</td>
<td>$481.81</td>
</tr>
<tr>
<td>Estimated Volatility</td>
<td>100%</td>
<td>$1,027.57</td>
<td>$886.50</td>
<td>$750.09</td>
<td>$619.56</td>
</tr>
<tr>
<td></td>
<td>105%</td>
<td>$1,039.57</td>
<td>$899.40</td>
<td>$763.79</td>
<td>$633.90</td>
</tr>
<tr>
<td></td>
<td>110%</td>
<td>$1,051.97</td>
<td>$912.60</td>
<td>$777.70</td>
<td>$648.35</td>
</tr>
<tr>
<td></td>
<td>115%</td>
<td>$1,064.74</td>
<td>$926.09</td>
<td>$791.79</td>
<td>$662.88</td>
</tr>
<tr>
<td></td>
<td>120%</td>
<td>$1,077.83</td>
<td>$939.80</td>
<td>$806.03</td>
<td>$677.47</td>
</tr>
<tr>
<td></td>
<td>125%</td>
<td>$1,091.19</td>
<td>$953.71</td>
<td>$820.38</td>
<td>$692.10</td>
</tr>
</tbody>
</table>
Limitations of the Black-Scholes Model:

There are several assumptions of the Black-Scholes model, one of which is that the model assumes returns on the underlying stock are log-normally distributed. Since GGP’s stock returns distribution may look more like an exponential distribution (due to the optionality of its price with regard to emergence from bankruptcy), this assumption of the Black-Scholes model may be violated. In addition, other assumptions of the model include: 1) the stock pays no dividends (or, attentively, pay them at a constant rate) during the option's life, 2) “European” exercise terms are used, 3) markets are efficient, 4) no commissions are charged and 5) interest rates remain constant and known. Violation of any of these assumptions might affect the predictability of the model.
Appendix B

Background on the US Bankruptcy Code

The Bankruptcy Code was written to afford protection to every variety of debtor. Corporations, partnerships, and individuals can all seek protection under the Code. Certain chapters of the Code apply to all bankruptcy cases, while certain others apply only to specific types of bankruptcies and entities. The most commonly used bankruptcy chapters are 7 and 11, both of which will be explored below.

A bankruptcy case begins when a petition is filed with the clerk of the Bankruptcy Court. The petition states the debtor qualifies for relief under the Code. A debtor can file its own petition and commence a voluntary case, while certain sections of the Code allow unsecured creditors (in certain specific cases and provided they meet a minimum dollar amount) to file an involuntary petition under Chapter 7 and 11 and put a debtor into bankruptcy (provided the debtor’s objections are overruled).

Filing a voluntary petition has several immediate effects. The filing itself constitutes an order of relief that stays the majority of proceedings against the debtor, known as the “Automatic Stay”. As defined by the US Code,

The automatic stay is one of the fundamental debtor protections provided by the bankruptcy laws. It gives the debtor a breathing spell from his creditors, stopping all collection efforts, all harassment, and all foreclosure actions. It permits the debtor to attempt a repayment or reorganization plan, or simply to be relieved of the financial pressures that drove him into bankruptcy. ¹¹⁵

Additionally, the assets and liabilities of the debtor are transferred into a bankruptcy estate. The creation of the estate changes the debtor into a debtor-in-possession (“DIP”) that acts as a trustee over the assets of the estate.

Chapter 11 provides certain benefits to the distressed firm. While in Chapter 11, the debtor does not have to pay or accrue interest on its unsecured debt (in keeping with the relief afforded under the Automatic Stay). Chapter 11 also allows the firm to reject unfavorable lease contracts and to borrow new money on favorable terms under what is known as DIP financing. These terms grant the DIP lender super priority over the

existing lenders. Finally, a reorganization plan in Chapter 11 can be passed with the approval of fewer creditors than a restructuring plan negotiated out of court, as out-of-court restructurings usually require creditors’ unanimous support.

Chapter 7
A Chapter 7 bankruptcy is a liquidation carried out under the guidance of the bankruptcy system. The debtor can convert a Chapter 7 case to a Chapter 11 at any time. Additionally, the Court may elect to convert a Chapter 7 case to a Chapter 11 after request by an interested party; however, the most common conversion is, unsurprisingly, a Chapter 11 case to a Chapter 7 case. In this instance, the bankruptcy court may decide that the best financial outcome for the stakeholders is for the company to liquidate all assets and pay creditors from the proceeds.

Impairment and the Voting Process
Only classes of claims that are “impaired” are allowed to vote on the acceptance of a plan. According to the Bankruptcy Code, 116

. . a class of claims or interests is impaired under a plan unless, with respect to each claim or interest of such class, the plan—

(1) Leaves unaltered the legal, equitable, and contractual rights to which such claim or interest entitles the holder of such claim or interest; or

(2) Notwithstanding any contractual provision or applicable law that entitles the holder of such claim or interest to demand or receive accelerated payment of such claim or interest after the occurrence of a default—

(A) cures any such default that occurred before or after the commencement of the case under this title,

(B) reinstates the maturity of such claim or interest as such maturity existed before such default;

(C) compensates the holder of such claim or interest for any damages incurred as a result of any reasonable reliance by such holder on such contractual provision or such applicable law; and

(D) does not otherwise alter the legal, equitable, or contractual rights to which such claim or interest entitles the holder of such claim or interest.

116 U.S. Bankruptcy Code, Section 1124.
The Bankruptcy Code defines “acceptance” of a plan by a class of claims as acceptance by claimholders that hold at least two-thirds in amount of the interests that cast ballots for acceptance or rejection of the plan.

The “Cramdown”
The Court may confirm a plan of reorganization over the rejection of the plan by a class of claims or equity interests. This power to confirm a plan over dissenting classes – often referred to as “cramdown” – is an important part of the reorganization process. It assures that no single group (or multiple groups) of claims or interests can block a restructuring that otherwise meets the requirements of the Bankruptcy Code and is in the interests of the other constituents in the case.

In a cramdown, the debtor may do any one or more of the following:

- reduce the principal amount of the secured claim,
- reduce the interest rate,
- extend the maturity date, or
- alter the repayment schedule.

In order for a cramdown to occur the debtor must satisfy the following requirements:

1. A class with a higher priority under the plan must be paid in full before any junior class can receive anything, unless the senior class consents to lesser treatment or a creditor or equity holder in a junior class provides “new value” to the debtor to assist it in its reorganization.
2. The debtor must show that the plan is “fair and equitable” and “does not unfairly discriminate” with respect to each class of claims that is impaired and has not accepted the plan.
3. The debtor must show that the plan will probably not be followed by a liquidation or a need for a further financial reorganization as a result of a subsequent loan default or otherwise (the “Feasibility Test”).

Proskauer Rose LLP, “Real Estate Bankruptcy Cramdowns: Fact or Fiction?,” *Client Alert*, March 2009.
Appendix C

Bankruptcy Committee Members

The GGP Creditors Committee, appointed April 24, 2009\textsuperscript{118}:  
\begin{itemize}
  \item Eurohypo AG, New York Branch;
  \item The Bank of New York Mellon Trust Co.;
  \item American High-Income Trust;
  \item Wilmington Trust;
  \item Taberna Capital Management, LLC;
  \item Macy’s Inc.;
  \item Millard Mall Services, Inc.;
  \item Luxor Capital Group, LP;
  \item M & T Bank;
  \item HSBC Trust Company
\end{itemize}

The GGP Equity Committee, appointed September 8, 2009\textsuperscript{119}:  
\begin{itemize}
  \item Marshall Flapan, as Trustee;
  \item Warren & Penny Weiner, as Tenants by the Entirety;
  \item Stanley B. Seidler Trust;
  \item William J. Goldsborough;
  \item Platt W. Davis, III;
  \item General Trust Company, as Trustee;
  \item Louis A. Bucksbaum.
\end{itemize}


\textsuperscript{119} Ibid.
### Appendix D

**Special Consideration Properties, status as of 9/30/2011**

<table>
<thead>
<tr>
<th>Property</th>
<th>Description</th>
<th>Date</th>
<th>Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>Northgate Mall</td>
<td>Sold</td>
<td>September 2011</td>
<td>$43,950</td>
</tr>
<tr>
<td>Piedmont Mall</td>
<td>Transferred to lender</td>
<td>September 2011</td>
<td>$33,918</td>
</tr>
<tr>
<td>Chico Mall</td>
<td>Sold</td>
<td>July 2011</td>
<td>$55,063</td>
</tr>
<tr>
<td>Country Hills Plaza</td>
<td>Transferred to lender</td>
<td>July 2011</td>
<td>$1,324</td>
</tr>
<tr>
<td>Chapel Hills Mall</td>
<td>Sold</td>
<td>June 2011</td>
<td>$112,217</td>
</tr>
<tr>
<td>Mall St. Vincent</td>
<td>Discounted pay-off</td>
<td>April 2011</td>
<td>$49,000</td>
</tr>
<tr>
<td>Southland Center</td>
<td>Discounted pay – off</td>
<td>April 2011</td>
<td>$105,390</td>
</tr>
<tr>
<td>Bay City Mall</td>
<td>Transferred to lender</td>
<td>February 2011</td>
<td>$23,341</td>
</tr>
<tr>
<td>Lakeview Square</td>
<td>Transferred to lender</td>
<td>February 2011</td>
<td>$40,512</td>
</tr>
<tr>
<td>Moreno Valley Mall</td>
<td>Transferred to lender</td>
<td>February 2011</td>
<td>$85,623</td>
</tr>
<tr>
<td>Eagle Ridge Mall</td>
<td>Transferred to lender</td>
<td>November 2010</td>
<td>$46,726</td>
</tr>
<tr>
<td>Oviedo Marketplace</td>
<td>Transferred to lender</td>
<td>November 2010</td>
<td>$50,813</td>
</tr>
<tr>
<td>Grand Traverse Mall</td>
<td>Classified as &quot;Discontinued Operations&quot; on GGP’s Supplemental Disclosure</td>
<td></td>
<td>$82,759</td>
</tr>
</tbody>
</table>

$647,877
Appendix E

Growth in Asset Values


Data provided by Green Street Advisors.

EQUITY

DEBT

Lehman Bankruptcy: 9/15/2008
GGP Recapitalization: 11/10/2010
GGP Bankruptcy: 4/16/2009
Rouse Acquisition: 11/12/2004

Data provided by Green Street Advisors.
Appendix F

General Growth Institutional Ownership

GGP is one of the largest companies in the REIT universe. Over the decade of the 2000s, the company was a primary holding of many institutional investors. Additionally, GGP was added to the S&P 500 index on June 25, 2007 and subsequently de-listed on November 14, 2008.

The composition of the company’s top institutional holders fluctuated year over year, but dramatically changed as the stock price plummeted in late 2008 and during the bankruptcy process. Some institutions may have sold out of their positions strategically while other may have been restricted from holding equities priced below minimum dollar per share thresholds or restricted from holding equities of bankrupt companies. Additionally, some institutions like Pershing Square Capital Management amassed enormous positions in the company at distressed prices in 2008 and 2009.
GGP's Largest Institutional Holders from 2002 – 2010:

<table>
<thead>
<tr>
<th>Top Institutional Holders</th>
<th>Added to S&amp;P 500 on 6/25/2007</th>
<th>Removed from S&amp;P on 11-14-08</th>
<th>Unreliable data for 9/30/09 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelante Capital Management LLC</td>
<td>103,488</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>APG Asset Management</td>
<td>7,038,171</td>
<td>1,056,406</td>
<td>-</td>
</tr>
<tr>
<td>APG Asset Management US, Inc.</td>
<td>-</td>
<td>7,931,600</td>
<td>-</td>
</tr>
<tr>
<td>BlackRock Fund Advisors</td>
<td>3,493,332</td>
<td>9,779,251</td>
<td>-</td>
</tr>
<tr>
<td>Blue Ridge Capital Holdings LLC</td>
<td>-</td>
<td>7,000,000</td>
<td>-</td>
</tr>
<tr>
<td>BNP Paribas Arbitrage SNC</td>
<td>-</td>
<td>482,199</td>
<td>-</td>
</tr>
<tr>
<td>Capital Guardian Trust Co.</td>
<td>2,043,000</td>
<td>2,791,187</td>
<td>-</td>
</tr>
<tr>
<td>CBRE Clarion Securities</td>
<td>5,740,740</td>
<td>7,251,835</td>
<td>-</td>
</tr>
<tr>
<td>Cohen &amp; Steers Capital Management, Inc.</td>
<td>10,267,065</td>
<td>17,793,459</td>
<td>-</td>
</tr>
<tr>
<td>Credit Suisse (United States)</td>
<td>19,596</td>
<td>7,275,312</td>
<td>-</td>
</tr>
<tr>
<td>D. E. Shaw &amp; Co., Inc.</td>
<td>-</td>
<td>6,516,100</td>
<td>-</td>
</tr>
<tr>
<td>Davis Selected Advisers LP</td>
<td>9,034,542</td>
<td>5,828,924</td>
<td>-</td>
</tr>
<tr>
<td>European Investors, Inc.</td>
<td>6,913,389</td>
<td>7,294,825</td>
<td>-</td>
</tr>
<tr>
<td>Fidelity Management &amp; Research Co.</td>
<td>7,749,054</td>
<td>30,454,538</td>
<td>-</td>
</tr>
<tr>
<td>Invesco Advisers, Inc.</td>
<td>2,668,095</td>
<td>199,718</td>
<td>-</td>
</tr>
<tr>
<td>Kinetics Asset Management, Inc.</td>
<td>-</td>
<td>36,800</td>
<td>-</td>
</tr>
<tr>
<td>LaSalle Investment Management Securities LP</td>
<td>5,635,143</td>
<td>3,847,526</td>
<td>-</td>
</tr>
<tr>
<td>Morgan Stanley &amp; Co. LLC</td>
<td>369,099</td>
<td>217,500</td>
<td>-</td>
</tr>
<tr>
<td>Morgan Stanley Investment Management, Inc.</td>
<td>6,529,938</td>
<td>15,728,526</td>
<td>-</td>
</tr>
<tr>
<td>OZ Management LLC</td>
<td>-</td>
<td>365,252</td>
<td>-</td>
</tr>
<tr>
<td>Paulson &amp; Co., Inc.</td>
<td>-</td>
<td>6,561,500</td>
<td>-</td>
</tr>
<tr>
<td>Pershing Square Capital Management</td>
<td>-</td>
<td>23,953,782</td>
<td>-</td>
</tr>
<tr>
<td>RREEF America LLC</td>
<td>9,403,047</td>
<td>5,475,145</td>
<td>-</td>
</tr>
<tr>
<td>State Street Global Advisors</td>
<td>2,168,253</td>
<td>5,730,621</td>
<td>-</td>
</tr>
<tr>
<td>SuttonBrook Capital Management LP</td>
<td>-</td>
<td>7,900,000</td>
<td>-</td>
</tr>
<tr>
<td>The Vanguard Group, Inc.</td>
<td>3,884,637</td>
<td>10,363,537</td>
<td>-</td>
</tr>
<tr>
<td>Wellington Management Co. LLP</td>
<td>6,138,000</td>
<td>9,461,981</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) Excludes the effect of dilutive securities
(2) Possibly related to pinksheet listing; reinstated on 3/5/2010
## Annual Transaction Activity of GGP’s Largest Institutional Holders from 2002 – 2010:

### Annual Change in Holdings of Significant Institutional General Growth Holdings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Institutional Shares</td>
<td>13,115,193</td>
<td>428,994</td>
<td>22,906,932</td>
<td>3,958,438</td>
<td>6,678,276</td>
<td>41,551,608</td>
<td>(77,143,134)</td>
</tr>
<tr>
<td>Basic Shares Outstanding</td>
<td>27,600,198</td>
<td>2,654,371</td>
<td>22,038,101</td>
<td>532,968</td>
<td>5,740,134</td>
<td>24,090,078</td>
<td>49,146,814</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Institution</th>
<th>Added to S&amp;P 500 on 6/25/2007</th>
<th>Removed from S&amp;P on 11-14-08</th>
<th>Unreliable data for 9/30/09 (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Adelante Capital Management LLC</td>
<td>2,910,189</td>
<td>(617,973)</td>
<td>(1,339,298)</td>
</tr>
<tr>
<td>APG Asset Management</td>
<td>1,114,185</td>
<td>(1,870,021)</td>
<td>(6,143,215)</td>
</tr>
<tr>
<td>APG Asset Management US, Inc.</td>
<td>(7,931,600)</td>
<td>(507,895)</td>
<td>(2,055,130)</td>
</tr>
<tr>
<td>BlackRock Fund Advisors</td>
<td>4,447,956</td>
<td>(1,062,954)</td>
<td>(7,761)</td>
</tr>
<tr>
<td>Blue Ridge Capital Holdings LLC</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>BNP Paribas Arbitrage SNC</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Canada Pension Plan Investment Board</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Capital Guardian Trust Co.</td>
<td>2,043,000</td>
<td>2,968,080</td>
<td>2,028,242</td>
</tr>
<tr>
<td>CBRE Clarion Securities</td>
<td>(2,690,685)</td>
<td>(3,008,930)</td>
<td>(1,062,954)</td>
</tr>
<tr>
<td>Cohen &amp; Steers Capital Management, Inc.</td>
<td>(4,600,635)</td>
<td>(1,064,706)</td>
<td>(6,143,215)</td>
</tr>
<tr>
<td>Credit Suisse (United States)</td>
<td>116,379</td>
<td>216,248</td>
<td>150,500</td>
</tr>
<tr>
<td>D. E. Shaw &amp; Co., Inc.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>DavisSelected Advisers LP</td>
<td>4,934,115</td>
<td>572,279</td>
<td>28,757</td>
</tr>
<tr>
<td>European Investors, Inc.</td>
<td>(4,617,000)</td>
<td>(1,513,979)</td>
<td>(782,410)</td>
</tr>
<tr>
<td>Fidelity Management &amp; Research Co.</td>
<td>(2,847,000)</td>
<td>(2,585,516)</td>
<td>(1,062,954)</td>
</tr>
<tr>
<td>Invesco Advisers, Inc.</td>
<td>4,607,217</td>
<td>920,993</td>
<td>120,381</td>
</tr>
<tr>
<td>Kinetics Asset Management, Inc.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>LaSalle Investment Management Securities LP</td>
<td>2,848,000</td>
<td>(611,054)</td>
<td>(1,621,898)</td>
</tr>
<tr>
<td>Morgan Stanley Investment Management Securities LP</td>
<td>(155,295)</td>
<td>(53,434)</td>
<td>346,279</td>
</tr>
<tr>
<td>Morgan Stanley Investment Management, Inc.</td>
<td>(180,207)</td>
<td>(1,460,178)</td>
<td>(3,169,923)</td>
</tr>
<tr>
<td>OZ Management LLC</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>PPG Asset Management, Inc.</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Pershing Square Capital Management</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>RREEF America LLC</td>
<td>2,848,000</td>
<td>(11,054,221)</td>
<td>4,260,519</td>
</tr>
<tr>
<td>State Street Global Advisors</td>
<td>1,624,440</td>
<td>740,242</td>
<td>330,085</td>
</tr>
<tr>
<td>SuttonBrook Capital Management LP</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>The Vanguard Group, Inc.</td>
<td>2,047,653</td>
<td>1,743,297</td>
<td>2,687,950</td>
</tr>
<tr>
<td>Wellington Management Co. LP</td>
<td>3,379,200</td>
<td>2,562,270</td>
<td>2,288,641</td>
</tr>
</tbody>
</table>