

Real Estate Quarterly

GENERAL GROWTH: TIME FOR NAME CHANGE?

Instead of growth, embattled mall operator plans to sell 3 properties

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General Growth Properties has announced plans to sell its highly lucrative retail properties in Las Vegas.

The Chicago-based real estate investment trust will offer its Strip properties — the Fashion Show mall, Grand Canal Shoppes at the Venetian and the Shoppes at the Palazzo — for sale. General Growth also owns the Meadows and Boulevard malls and is developing the Shops at Summerlin Centre.

The future of those and other properties in the company's portfolio remains uncertain.

General Growth has ownership interest in or management responsibility for more than 200 shopping malls in 44 states.

The company also announced John Bucksbaum and Robert A. Michaels have been replaced as chief executive and president, respectively.

Adam Metz, a founding partner of Polaris Capital, will serve as interim chief executive, and Thomas H. Nolan Jr., most recently a managing director of Trefethen & Co., will serve as interim president.

Bucksbaum, whose father co-founded General Growth Properties, will retain his position as chairman of the company, and Michaels will remain chief operating officer.

The trust has seen its stock price plunge from \$54 a share a year ago to less than \$2 a share this week.

Bucksbaum backed the decisions in a statement released by General Growth.

"Adam and Tom bring a wealth of real estate and finance experience to our company," Bucksbaum said. "I fully support the board of directors' decision to have them join the senior management team, given their deep knowledge of our industry and extensive relationships."

The company also announced an affiliate of a Bucksbaum family trust advanced unsecured loans to Michaels and Bernard Freibaum, a former director and chief financial officer, to repay personal margin debt relating to company stock.

The loan to Michaels, which totaled \$10 million, has been repaid in full. The loan to Freibaum, which totaled \$90 million, has \$80 million outstanding. Freibaum's employment with General Growth was terminated before the board learned of the loans.

The failure to disclose the loans to General Growth's board did not follow company policy. Company officials state, however, that no company assets or resources were involved and that no laws or Securities and Exchange Commission rules were violated.

Calls to General Growth for additional comment were not returned by press time, and it is unclear if the failure to disclose the loans contributed to the shake-up.

The decline of General Growth occurred very quickly.

As recently as four months ago, its stock was still trading at about \$40 a share, and the company was optimistic about its future and bullish on upcoming Las Vegas projects. The Shops at Summerlin Centre and High Street at Echelon, the retail portion of Boyd Gaming's



STAFF ILLUSTRATION BY CHRIS MORRIS



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Strip mall: Tourists are shown at the Grand Canal Shoppes at the Venetian.

\$4.8 billion Strip project, were prominently featured at an International Council of Shopping Centers convention in May.

In August, however, on the heels of the

company's second-quarter earnings report and with billions of dollars in debt looming, General Growth announced both projects would be delayed.

Boyd has since decided to delay Echelon and speculation is rampant that if and when it is revived, General Growth will not be the retail partner, market observers said.

In an exclusive interview with In Business in September, Bucksbaum remained cautiously optimistic about the company's future.

"We do have a number of mortgages and a great number of properties and this is a tougher environment," Bucksbaum said then. "We've never not repaid a penny out of the billions and billions of dollars we've borrowed."

Although that statement still holds true, General Growth will have to sell some of its prime assets to make it remain so.

The company faces a Nov. 28 maturity date from its syndicate of lenders for Fashion Show mall and the Palazzo and is seeking an extension in conjunction with the sale process.

Goldman, Sachs & Co. and Eastdil Secured will be jointly responsible for the marketing effort, which is expected to begin immediately.

The company's stock has been in a free-fall since September and the decline has forced some General Growth executives to sell massive shares of stock to meet margin calls.

Michaels unloaded 700,000 shares in August and 300,000 shares in September, the company said. Freibaum dumped at least 1.5 million shares before the company dumped him.

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Pamela Joy Ring of the Ring Retail Advisory said although the decision to sell the high-profile properties could be viewed as an act of desperation, it might ultimately keep the company afloat.

"Unfortunately, they are in a reactive mode and not a proactive mode, and they are doing what financially distressed businesses do," Ring said. "Clearly this is a company that is overleveraged and does not have the cash flow to meet its credit obligations."

Ring is a Las Vegas-based consultant with

more than 30 years of experience in the retail industry.

It makes sense, she says, for a company to liquidate its best assets to raise cash quickly and the Strip properties are widely considered the "jewels" of the General Growth portfolio.

"It's one of the defense mechanisms that companies in distress employ," Ring said. "On the other hand, this will be a great opportunity for buyers because I believe they are going to be sold at a value price."

Even in this distressed market, there are probably companies that would find the Strip properties desirable.

Ring mentioned Michigan-based Taubman Centers and Simon Property Group, which

owns the Forum Shops at Caesars, as possible domestic suitors.

"Don't rule out foreign investors that we may not be that familiar with," Ring said. "America is a great buy right now."

The company is also marketing additional assets that have not yet been identified publicly.

General Growth's third-quarter earnings report should provide more information about its future. The report and a conference call to discuss its contents were originally scheduled for Oct. 31. Because of the management changes, however, the release date and conference call have been pushed to Nov. 5.