❖ Contrarian Research Report ❖

July 7, 2009

General Growth Properties, Inc.

(BUY)

Price:	$1.78	**Ticker:**	GGWPQ
52-wk. range:	$44.00 - $0.24	**Dividend:**	zero
Shares out.:	298 million	**Yield:**	zero
Market Cap.:	$530 million		

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Investment Thesis

After months of uncertainty, General Growth Properties filed for Chapter 11 bankruptcy protection in April. As a result of its liquidity crisis, the company's shares declined at one point 99% from the level achieved last summer. General Growth is the largest real estate bankruptcy in history, involving 158 malls, and what makes the filing unique is that the company does not have a profitability issue. In fact, its fixed charges and interest coverage ratios are 1.6x and 1.7x, respectively and the company is widely expected to generate funds from operations of over $600 million this year and next. The vast majority of General Growth's assets are cash flow positive after debt service, and its tenant sales performance/erosion remains far better than national averages. Hence, the bankruptcy filing was primarily a result of near-term debt maturities, the fact that the collateralized mortgage backed securities market has been frozen since last summer (zero dollars issued this year compared to $16 billion in 2008 and $230 billion in 2007, according to Bank of America), as well as a valuation shift (cap rate expansion) which has lowered real estate asset prices, thereby making them difficult to refinance. Even so, that does not mean that General Growth's regional mall portfolio, which generates above average productivity and has the second highest occupancy rate in the industry, is not valuable to the company's equity holders.

The bankruptcy will likely have little impact at the property level. Malls are effectively self-contained businesses that historically generate substantial cash flows. Tenants gain no additional rights in the real estate bankruptcy process, must pay rent, and continue to operate. In fact, most of the company's tenants are locked into long-term contracts and only 5.9% of General Growth's leases expire in 2009; over 75% of the leases do not expire until after 2012. The company's malls, which include approximately 80 "Class A" and high-profile malls such as Faneuil Hall in Boston, Water Tower Place in Chicago and the South Street Seaport in New York, have over 24,000 tenants. In fact, as these malls are more profitable than the rest of the company's malls, one can construct a valuation scenario which indicates that these 80 malls alone are worth approximately the current enterprise value of General Growth. If that can be accepted, investors receive 130 non-'A'-rated malls, more than 30 grocery-anchored strip centers, its master planned community business, as well as General Growth Management Inc. (its mall management subsidiary) at approximately no cost.

The best option for General Growth's creditors is likely to allow the company to extend its loans and continue to make payments, which it has the ability to do. Furthermore, because General Growth is the largest mall owner in the US, a liquidation is highly unlikely as there are no buyers that can purchase enough of the properties, with credit markets in their current state, to avoid a total collapse of the commercial real estate market. A liquidation would most likely result in significant losses to General Growth's creditors, which may cascade to many other commercial real estate debt holders as, in general, this debt has not been written down materially yet, and a sale of General Growth's properties at bargain levels may trigger a system-wide write down cycle. Hence, the company's creditors are ultimately most likely to refinance the debt in some manner. In that case, General Growth's strong cash flow should allow it to service its debt without much difficulty and the creditors may continue to carry the debt at par value.

Because General Growth is able to service its debt for the foreseeable future and given that its assets exceed its liabilities, its bankruptcy is far more likely to leave significant value for equity holders, as compared to the average bankruptcy case. Accordingly, it makes little sense to force a sale in which all equity and part of the lenders' claims would be lost. While it can be calculated that General Growth's equity would, theoretically, be worthless, in the sense that assets would just equal liabilities, at a capitalization rate (cap rate) of slightly less than 10%, the equity valuation is highly sensitive to small changes in the cap rates. For example, if the cap rate were to revert to the 23-year historical average of 7.6% over the next 2-3 years, General Growth's equity would be worth over $24 per share.

At the end of the day, it is possible that General Growth will remain in bankruptcy for an extended period of time, perhaps two years. During that time, the company should build a significant cash cushion since it will not make certain interest payments, and it should generate approximately $450-$500 million, or more, per year in free cash flow. Two years provides a fairly long time frame during which the economy and the value of real estate assets could improve dramatically. As the company's assets exceed its liabilities, and since debt holders are entitled to no more than the face value of their bonds and interest owed on these instruments, what remains belongs to the equity holders.

Consequently, as the risk that the equity will ultimately be worthless is very remote, in our opinion, the potential return in holding shares of General Growth appears to be well worth the risks for patient investors. In fact, most of the valuation scenarios we have developed arrive at a fair market price of the equity in the range of $15-$20 per share. Therefore, the market is, in fact, discounting the risk that existing investors will be diluted to the point at which they will only control 10% of the reorganized entity. This is very unlikely, in our judgment, and provides equity investors a significant margin of safety. If the possibility that the equity will ultimately be worthless, a possibility we believe to be insignificant, is weighed against perhaps 10-fold appreciation potential, the risk/reward profile is attractive. Therefore, the purchase of General Growth's shares is recommended.

Background

General Growth was founded by two brothers, Martin and Matthew Bucksbaum, in 1954. The Bucksbaum family was originally in the grocery business in Cedar Rapids, Iowa, and the brothers were looking for a site to locate a fourth supermarket in a chain founded by their father when they learned of a chance to finance the construction of a shopping center in Cedar Rapids. Consequently, rather than continue to be tenants, they borrowed $1.2 million and purchased the property. What resulted was one of the first shopping centers in the United States, the Town and Country Shopping Center, which opened in 1956. The

Bucksbaums decided that their future lay in the building of strip malls and even before Town and Country opened they had exited the supermarket business. They then built the Wakonda Shopping Center in Des Moines and the Duck Creek Plaza in Bettendorf, Iowa. The latter was their first mall to have a department store, Younkers, as an anchor. By 1964 the family owned five properties and formed a management company, General Management Corporation, in which the Bucksbaums were majority stockholders. With the advent of enclosed malls in the 1960s, the Bucksbaums shifted from building strip centers to the new shopping mall format. In 1970 the brothers exchanged their interests in General Management Corporation for shares in a REIT they named General Growth Properties (GGP). Another entity, General Growth Companies, was then formed to plan, develop, and manage the REIT's assets. Ultimately, GGP started a management company called General Growth Management Inc. to oversee its properties on a third-party basis.

REITs were a relatively new creation, established by Congress in 1960 as a way for small investors to become involved in real estate in a manner similar to mutual funds. REITs could be taken public and their shares traded just like stock. They were also subject to regulation by the Securities and Exchange Commission. Unlike companies issuing stock, however, REITs were required by law to pay out at least 95% of their taxable income to shareholders each year. Because REITs were allowed only to own real estate, third parties, such as General Growth Companies, had to be contracted to manage the properties. Because of a number of factors, REITs at this stage in their history did not gain much favor with the investment community.

In 1972, the company listed its shares on the New York Stock Exchange. However, by 1984, management was dissatisfied with the company's stock price and, when the prices for retail properties improved significantly in the early 1980s, they decided to sell the company's portfolio of 19 shopping centers. Shareholders eventually realized a 22% internal rate of return on their investment from the original IPO through 1984. In 1984 General Growth sold the shopping centers to Equitable Life Assurance Society for $800 million, which at the time was the largest single-asset real estate transaction in history. Although the company's shareholders, primarily the Bucksbaums, were paid off and the REIT was liquidated, the Bucksbaum family continued to manage most of the properties through General Growth Management. Not until the Tax Reform Act of 1986 changed the nature of real estate investment did REITs begin to gain widespread usage. Tax shelter schemes that had drained potential investments were shut down. Interest and depreciation deductions were greatly reduced so that taxpayers could not generate paper losses in order to lower their tax liabilities. The act also permitted REITs to provide customary services for properties, in effect allowing the trusts to operate and manage the properties they owned. Despite these major changes in law, REITs were still not fully utilized. In the latter half of the 1980s banks, insurance companies, pension funds, and foreign investors (in particular, the Japanese) provided the majority of real estate investment funds. That period also witnessed overbuilding, leading to a shakeout in the marketplace. With real estate available at distressed prices in the early 1990s, REITs finally became an attractive mainstream investment option.

In 1986 Martin and Matthew Bucksbaum formed General Growth Properties, Inc. as a vehicle to purchase and own mall properties. Three years later the company acquired the assets of The Center Companies, a deal that in turn made General Growth Management the second largest manager of regional shopping malls and the leading manager for institutional owners. In 1993 the Bucksbaums packaged 55% of General Growth Partners' assets into a new REIT using the old GGP name in order to take the business public and look for acquisition opportunities, in particular poorly run malls whose management could be improved and facilities updated. The Bucksbaum family retained the remaining 45% of the General Growth Partners' holdings. An initial public offering of GGP, which owned 21 malls in 14 states, was then held, in which 19 million shares were sold at $22 per share.

General Growth's first acquisition came in early 1994 when it paid $182 million for a 40% interest in CenterMark Properties from The Prudential Insurance Company of America. CenterMark owned 16 regional malls along with three power centers, 14 freestanding department stores, a 116-unit apartment project, and other real estate assets. A year later GGP sold 25% of its stake to Westfield Holdings Group, the company that had been its partner on the CenterMark deal, for $72.5 million in cash. In June 1996, General Growth sold the balance of its CenterMark interests to Westfield, so that in just over two years, the company realized a profit of $143 million. In 1995, General Growth Properties moved its headquarters from Des Moines, Iowa, to Chicago. In 1996 it acquired General Growth Management, which brought the company's marketing, leasing, and marketing operations under one umbrella. At that time, competitors began to acquire mall properties at a rapid pace. As a consolidation wave swept the industry, General Growth did generally not overpay for properties and appeared content to wait for the right opportunity. In 1997 it spent just $350 million to add eight malls, including the Oaks Mall in Florida and Westroads Mall in Nebraska. The company's next major acquisition did not come until 1998 when it paid $871 million in cash for eight shopping malls owned by US subsidiaries of MEPC plc, a London-based development company. On November 12, 2004, General Growth acquired The Rouse Company in the largest retail real estate merger in American history.

Since 2005, General Growth's only major acquisition has been the July 2007 acquisition of the 50% interest owned by New York State Common Retirement Fund in the GGP/Homart I portfolio of 19 regional shopping malls, one community center and three regional shopping malls. General Growth has also developed many new projects since 2005. However, as a result of its current financial condition, the company has halted or suspended substantially all of its development and redevelopment activity in order to conserve cash.

During its time as a public company, General Growth has paid out over $4 billion in dividends to its shareholders. In addition, it has refinanced or paid down approximately $32 billion of debt and, until the first quarter of this year, it had never defaulted on a mortgage.

Maturities

When the company filed for bankruptcy, it had $29.6 billion in assets and $27.3 billion in debt. General Growth's debt includes individual CMBS secured by properties for each mall and unsecured bonds at the corporate level. These obligations have an average time to maturity of 2.8 years. Historically, the company used to refinance its debt through the commercial mortgage-backed securities market, which froze last year after Lehman Brothers filed for bankruptcy in September, and is still not functioning properly. As a result, the market capitalization of General Growth declined sharply to less than $100 million at one point from a peak of $20 billion in April 2007.

General Growth's maturity schedule by year (in billions):

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018+
$3.6	$7.0	$5.9	$4.6	$4.5	$0.6	$0.4	$0.6	$0.1	$0.1
13.1%	25.5%	21.5%	16.8%	16.4%	2.2%	1.5%	2.2%	0.4%	0.4%

The unsecured bonds are mostly a result of the acquisition of Rouse Co in 2004, and bonds are still listed under the Rouse name.

The vast majority, 82% in fact, of General Growth's debt is fixed rate. In other words, if future inflation will be as high as many market participants expect, the company will most likely benefit, as its revenue should grow faster than its interest payments; this should result in rapid increases in profitability:

Type of Debt	% of total	Amount
Unsecured variable rate	10.0%	$2,783,700
Secured variable	7.7%	$2,137,330
Unsecured fixed rate	13.7%	$3,793,964
Secured fixed rate	68.6%	$19,058,778
		$27,773,772

(in thousands)

The Importance of Cap Rates

The capitalization rate (cap rate) determines the value of a property based on estimated future operating income. In fact, the value of a property is determined by dividing the net operating income that a property generates by the cap rate. Obviously, in times of low market risk premiums and rising property values, the cap rates tend to be low. At the current time, however, with credit markets frozen and property prices declining, it is no surprise that the cap rates are high. When it come to the valuation of a company such as General Growth, small changes in the assumed cap rate have a great impact on the calculation of the equity value, as will be shown below.

In 2008, General Growth's total NOI (Net Operating Income) was $2.576 billion. To calculate the value of General Growth's equity, in a very simplified manner, we use potential cap rates between 8-10%, which appear to be appropriate in the current market. General Growth's equity would then be as follows:

	8%	9%	10%
2008 NOI	$2,575.50	$2,575.50	$2,575.50
Property Value	$32,193.80	$28,616.70	$25,755.00
Add: Other Assets	$3,102.00	$3,102.00	$3,102.00
Less: Liabilities	$28,174.00	$28,174.00	$28,174.00
Less: Other Liab.	1,706.00	1,706.00	1,706.00
Equity Value	$5,415.80	$1,838.70	($1,023.00)
Value per Share	$18.05	$6.13	($3.41)

(in millions, except per share data)

However, it is widely expected that the company's NOI will decline this year, as evidenced by the 4% year-over-year decline in the first quarter results and the generally worsening retail environment. Thus, if we assume that General Growth's 2009 NOI will decline 4%, the following equity values could be expected:

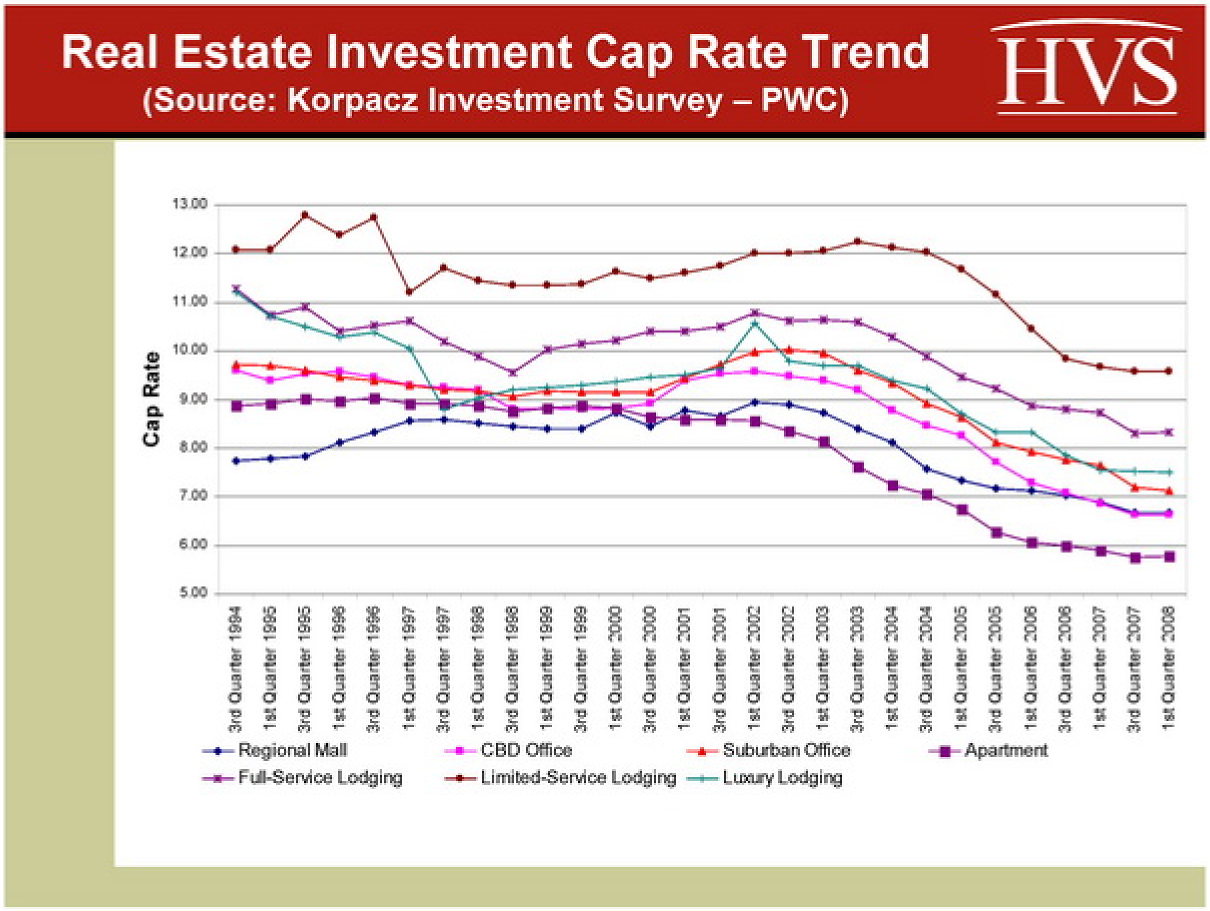
	8%	9%	10%
2009E NOI	$2,472.50	$2,472.50	$2,472.50
Property Value	$30,906.00	$27,472.00	$24,724.80
Add: Other Assets	$3,102.00	$3,102.00	$3,102.00
Less: Liabilities	$28,174.00	$28,174.00	$28,174.00
Less: Other Liab.	1,706.00	1,706.00	1,706.00
Equity Value	$4,128.00	$694.00	($2,053.20)
Value per Share	$13.76	$2.31	($6.84)

(in millions, except per share data)

As the table indicates, an 8% cap rate or a 10% cap rate can be the difference between the equity value being $4-$5 billion, or worthless. It could also be argued that it is not appropriate to aggregate the value of General Growth's debt and compare it to the valuation of the assets on a NOI / Cap Rate basis. That is because the bonds of the Rouse subsidiary are not guaranteed by General Growth Properties and General Growth Properties' unsecured term loan is not guaranteed by Rouse. Therefore, it may be appropriate to split the entities into two distinct parts if one attempts to calculate the recovery value to the various claimants.

Of course, it is possible that the company will remain in bankruptcy for an extended period of time, perhaps two years. In that case, upon its exit the retail environment, the economy and the real estate market could be much improved, with the further result that General Growth's expected 2011 NOI could be significantly different as well. Consequently, as the aforementioned factors affect the cap rate, any attempt to value General Growth's equity using cap rates will be sensitive to changes in these variables. For example, it can be calculated that, under the former set of assumptions, at approximately a 9.6% cap rate, General Growth Properties' equity would have zero value, in theory. By contrast, peers such as Simon Property would reach that point at approximately a 16.5% cap rate. We note that Simon is currently trading at a cap rate of approximately 8.4%. Also, as eluded to above, if the economy and real estate market recover, it is possible that cap rates could be significantly lower at the time General Growth exits bankruptcy. A few years ago, cap rates of 5-6% were not uncommon. If that environment were to return, General Growth's equity would be worth $54-$82 per share, using the model above.

Lower cap rates may not be farfetched. According to market research firm Green Street Advisors, since 1986, Shopping Malls have traded at an average cap rate of 7.6%, and this average was achieved in much higher long-term interest rate environments. The following chart from PricewaterhouseCoopers shows the cap rate trends in the past 15 years, which yields a similar result:



Again, if we use the simplified model above, General Growth's equity would be worth $24 per share at a 7.6% cap rate. It is likely that the cap rate will revert to the mean over the next few years as the financial markets begin to function normally again and financing will become easier to obtain.

The Issue of Substantive Consolidation

General Growth's management claims to have tried every avenue to refinance its loans, prior to filing for Chapter 11 bankruptcy, and were frustrated by the unresponsiveness of the master and special servicers.. The company surprised many creditors by including even profitable malls without much refinancing risks in its bankruptcy filing. The company's objective is clearly to improve its bargaining position with lenders. In particular, General Growth hopes to be better positioned to bargain with its creditors to extend the terms of its debt and avoid foreclosures. The bankruptcy judge is expected to make a ruling momentarily as to whether some of the profitable malls will be excluded from the bankruptcy, as argued by the creditors. The entities in bankruptcy had total debt of $24 billion at the time of the bankruptcy filing, approximately $15 billion of which consist of commercial mortgage backed securities. The remainder of General Growth's approximately 200 malls comprises joint ventures, which are not in bankruptcy, nor is the General Growth Management company, which also is profitable.

In past years, to get the mortgages for each individual mall, General Growth had set up 166 "special purpose entities" (SPEs, or malls in this case) whose sole purpose was to borrow money. SPEs are attractive to lenders because, according to legal experts, they are "bankruptcy remote," meaning their cash flows are dedicated to paying debt service. General Growth set up each mall as a special purpose entity, a separate company that protected General Growth from each of the malls' obligations. Each SPE was governed by independent directors and each entity's cash was managed separately. The creditors of the SPEs argue that General Growth put the SPEs into bankruptcy in order to give the company more leverage from which to negotiate loan modifications and extensions. In fact, several of the SPE which filed for bankruptcy were not in default and had between one and five years before their current debt matured. These SPE filings were, therefore, preemptive filings made in anticipation of future refinancing risk. Holders of these mortgage-backed securities expected the structure to ensure their payment even if the parent company went bankrupt. However, many of the mortgages on the malls were made during the loose lending period of 2004 through 2005 and some of the terms were either vague or not followed. For instance, in most of the cases, the meaning of independent director was not defined, nor was cash for each mall managed separately.

On May 14th, the court granted General Growth's request to use the cash collateral of the SPE's creditors to support its debtor and non-debtor subsidiaries. The court found that the adequate protection package negotiated with and agreed to by many of the lenders was in fact adequate. General Growth has pledged to continue paying interest on its mortgages, possibly making it more difficult for CMBS holders to argue they should be allowed to foreclose. It also pledged to provide its mortgage lenders "adequate protection," meaning they will have an administrative claim in any liquidation scenario to cash flow drawn from their properties by the parent company. However, lawyers representing four CMBS special servicers handling loans on 39 General Growth malls argued in their court papers that each entity is separate from the company and thus should retain all of its own cash flow. Also, some entities are solvent, adequately capitalized and have sufficient cash flow to pay their current obligations, including debt service.

Substantive consolidation is the merging of assets and liabilities of a debtor into one big pool from which creditors seek recovery. In principle, by consolidating units (i.e. disparate corporate entities, divisions, malls, etc) a debtor is essentially simplifying the process of how it will settle with all its creditors. In a substantive consolidation, certain parties are helped and certain parties are hurt. If a better capitalized subsidiary with better assets is consolidated with a worse capitalized subsidiary with more debt, the lenders to the former subsidiary get hurt - the assets they could access to satisfy their loans are now are in a larger, lower-quality pool. Therefore, if General Growth is allowed substantial consolidation, it should be more likely to negotiate a deal favorable for equity holders.

The judge later dismissed 8 malls, which did not have imminent refinancing problems, at the request of creditors. Consequently, so far the judge has allowed the remaining 158 malls to be included in the bankruptcy filing. However, the issue of whether the SPE debtors should be substantively consolidated has not yet been decided by the court. The various filings were procedurally consolidated only. The value of the non-consolidation opinions that populate the loan closing binders in countless real estate finance transactions has not been called into question. As a result, this bankruptcy case will set an important precedent in the determination of these concepts, as there have not been actual tests of these theories.

Company Overview

General Growth Properties, Inc. is one of the largest publicly traded Real Estate Investment Trusts (REITs), based upon revenues. The company currently owns or manages a portfolio of more than 200 regional shopping malls in 45 states. It also holds ownership in master planned community developments and commercial office buildings.

Company Structure

GGP LP is the entity through which virtually all of the company's business is conducted. GGP LP's subsidiaries include GGPLP, LLC (the company that controls the shopping malls), The Rouse Company LP (a 2004 acquisition of a shopping mall owner which is still a separate entity), and General Growth Management, Inc. (GGMI, the company that manages shopping malls). GGP LP, GGPLP, LLC, and Rouse are included in the Chapter 11 bankruptcy filing, as are 158 regional shopping centers owned by General Growth subsidiaries. According to the company's website, 115 company-related entities did not file for protection, including its third-party management business, General Growth Management, Inc., and its joint venture malls and office properties.

General Growth's operations are focused in two main areas:

- **Retail and Other**
  This segment includes the operation, development and management of retail and other rental property, primarily shopping centers.

- **Master Planned Communities**
  This segment includes the development and sale of land, primarily in large-scale, long-term community development projects in and around Columbia, Maryland; Summerlin, Nevada; and Houston, Texas, and one residential condominium project located in Natick (Boston), Massachusetts

GGP LP (General Growth's REIT)

GGP LP owns 100% of many of its properties and a majority or controlling interest in others. The company holds over 200 regional malls with more than 160 million square feet of gross leasable area, including the company's pro rata share of joint venture malls. In addition, it owns office properties in Arizona, Nevada and near Maryland / Washington D.C. It is estimated that the number of annual mall visits to the company's properties exceed 1.3 billion.

Retail Portfolio

The Retail Portfolio is comprised mostly of regional shopping centers, but also includes festival market places, urban mixed-use centers and strip/community centers. Most of General Growth's shopping centers are located in major and middle markets. These properties usually contain at least one major department store as an Anchor. The company also owns non-controlling interests in various international joint ventures in Brazil, Turkey and Costa Rica.

The Retail Portfolio's geographic diversification is intended to mitigate the effects of regional economic conditions and local factors. The majority of the income from the properties in the Retail Portfolio is derived from rents received through long-term leases with retail tenants. These long-term leases generally require the tenants to pay base rent which is a fixed amount specified in the lease. The base rent is often subject to scheduled increases during the term of the lease.

Another component of income is overage rent. Overage rent is paid by a tenant generally if its sales exceed an agreed upon minimum amount. Overage rent is calculated by multiplying the sales in excess of the minimum amount by a percentage defined in the lease, the majority of which is typically earned in the fourth quarter. General Growth's leases include both a base rent component and a component which requires tenants to pay amounts related to all of their share of real estate taxes and certain property operating expenses, including common area maintenance and insurance. The table below shows the categories of tenants in General Growth's shopping malls as of the end of 2008:

Category	% of Sq. Ft.	Representative Tenants
Specialty (includes personal services)	21%	Lenscrafters, Mastercuts, Pearl Vision
Family Apparel (includes unisex)	15%	Banana Republic, Gap, J. Crew
Women's Apparel	12%	Ann Taylor, bebe, Chico's, Victoria's Secret
Teen Apparel	11%	Abercrombie & Fitch, Aeropostale
Shoes	8%	Champ's, FootLocker, Nine West
Restaurants	8%	Applebee's, Olive Garden, PF Chang's
Home Entertainment and Electronics	4%	Apple, EB Games, FYE, RadioShack
Home Furnishings	3%	Crate & Barrel, Pottery Barn
Sporting Goods	3%	Dick's, Pro Image, Scheel's All Sports
Children's Merchandise	3%	Children's Place, Gap Kids, Gymboree
Personal Care	3%	Bath & Body Works, Sephora
Gifts (includes stationery, cards, gifts and novelty)	3%	Hallmark, Spencer Gifts,
Jewelry	2%	Kay Jewelers, Zales Jewelers
Fast Food/Food Court	2%	Arby's, Chick-Fil-A, McDonald's
Specialty Food (includes health, candy and coffee)	2%	GNC, Godiva, Starbucks
TOTAL	100%	

Research firm Green Street Advisors assigns an 'A'-grade to 73 malls in General Growth's portfolio, and this does not include high profile properties such as Faneuil Hall Marketplace in Boston, South Street Seaport in New York City, and Ward Centers in Honolulu, Hawaii. General Growth has over 24,000 tenants, with its largest tenant accounting for only 2.7% of revenue as of March 31, 2009, as the table below indicates:

Top Ten Tenants	Percent of Revenues
Gap, Inc.	2.7%
Limited Brands, Inc.	2.7%
Abercrombie & Fitch Co.	2.2%
Foot Locker, Inc.	2.2%
Macy's, Inc.	1.7%
American Eagle Outfitters, Inc.	1.4%
Express, LLC	1.2%
Forever 21, Inc.	1.1%
Luxottica Group S.P.A.	1.1%
JC Penny Company, Inc.	1.1%

The shopping mall business is actually far less cyclical than the retail industry in general because its revenues are insulated by long-term leases. More than 75% of General Growth's leases do not expire until 2012 or later, as the table below indicates:

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019+
5.9%	9.9%	8.8%	10.1%	8.1%	8.2%	9.0%	9.7%	10.2%	11.7%	8.4%

In addition, rents generally increase over time, since General Growth usually has rent escalation clauses built into its tenants' contracts. This long term lease-based revenue model offers embedded growth in good times and mitigates revenue declines in bad times. Over the next decade, this is the average per square foot rent and recoverable schedule:

2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
$37	$41	$48	$53	$56	$56	$65	$67	$70	$75	$62

(Data includes significant proportion of short-term leases on inline spaces that are leased for one year. Rents and recoverable common area costs related to these short-term leases are typically much lower than those related to long-term leases.)

General Growth Management Inc. (GGMI)

General Growth is also the asset manager for most of its real estate portfolio, executing the strategic decisions and overseeing the day-to-day property management functions, including operations, leasing, construction management, maintenance, accounting, marketing and promotional services. For jointly owned properties, General Growth usually handles the management activities through one of its taxable REIT subsidiaries. As of year-end 2008, General Growth managed the properties for 19 of its unconsolidated joint ventures and 10 of its consolidated joint ventures. The company's joint venture partners or other third parties managed 11 of its unconsolidated joint ventures and one of its consolidated joint ventures. Over 60% of GGMI's revenue is derived from third party (non-General Growth) malls.

Master Planned Communities (MPC)

In this segment, General Growth develops and sells land for residential and commercial use. At the current time, MPC includes the following large-scale, long-term community development projects:

Project	Total Gross Acres	Remaining Saleable Acres
Maryland communities	19,100	541
Summerlin, Nevada	22,500	7,381
Bridgeland, Texas	11,400	7,248
Woodlands, Texas	28,400	2,870
Total	81,400	18,040

(as of December 31, 2008)

As an example of upcoming projects, General Growth recently received zoning approval to transform 60 acres of land in the center of Honolulu into a diverse neighborhood of residences, shops, entertainment and offices which is ultimately expected to encompass approximately 17.3 million square feet of commercial and multi-family space. The company intends to develop 4,300 residential units, many of them in towers aligned to preserve mountain and ocean views, 5 million square feet of retail shopping, restaurants and entertainment, 4 million square feet of offices and other commercial space, 700,000 square feet of industrial-use space, 14 acres of open space, parks and public facilities. The development is expected to take more than 20 years to complete.

Development expenditures, including new developments, redevelopments and expansions, were approximately $1.01 billion as of December 31, 2008 and the cost to complete the remaining active projects is expected to approximate $308 million in 2009 and beyond.

The Hughes Heirs' Issue

A separate issue, but a potential problem for General Growth, is its obligations with regard to an agreement with the heirs of Howard Hughes. The company assumed these obligations when it acquired The Rouse Company in 2004. Rouse originally entered this agreement in 1996 when it acquired The Hughes Corporation. At the time, the heirs had about 24,000 acres of land, mainly in Nevada and California that they inherited when Howard Hughes died in 1976. Hughes Corp. and Rouse could not agree on how to value the land. The disagreement threatened the acquisition of Hughes Corp., so the two companies agreed to an "earn-out" arrangement, allowing Rouse and the Hughes heirs to share proceeds generated by land sales as they occurred. Any unsold land would be appraised at certain dates. Once the value of these land sales is tabulated, the heirs were to receive Rouse stock (now General Growth's stock) equal to that value through 2009. Under the agreement, General Growth is required to issue shares of its common stock semi-annually (February and August) to the former owners of the Hughes Company (i.e. the heirs of Howard Hughes). The number of shares to be issued in any period is based on cash flows from the development and the current stock price of General Growth. For February 2009, the company was not obligated to issue any shares pursuant to this requirement, as the net development and sales cash flows were negative for the applicable period.

Compounding the issue for General Growth is a provision to pay half of the value of its Summerlin holdings to the heirs of Howard Hughes next year, with the price to be based on an independent appraisal. The amount of this distribution will be based on the appraised values of the properties at such time. Even with declining land values, that provision is likely to involve hundreds of millions of dollars that may now be part of the bankruptcy case. In fact, the appraisal, which would be based on the current market or liquidation value of the properties, would likely yield a valuation high enough so that, based on the current market price of the company's common stock, the final distribution could result in the Hughes heirs controlling a majority of General Growth's shares. Such issuance of common stock would result in a change in control of the company, which would cause a default or an acceleration of the maturity date under certain of the company's debt obligations. It is, therefore, unclear at the current time how this issue will be resolved. In the end, though, the Howard Hughes heirs will likely receive shares in the reorganized company, which should result in a much lower percentage of the outstanding equity.

Financial Performance

Given the rapid deterioration of the economy in the last year, General Growth's malls have performed fairly well. Comparable tenant sales declined to $438 per square feet in the fourth quarter, equaling the performance of the company's largest peers. The company also ended 2008 with 92.5% occupancy. However, in the first quarter of 2009, its tenant sales declined 6.1% on a year-over-year basis (down 2.5% per square foot compared to the fourth quarter), and occupancy fell to a still respectable 90.9%. Given the sharp overall deterioration in the retail sector, the moderate declines in General Growth's mall performance highlight the robustness of its regional malls. We note that General Growth's average retail lease term was greater than nine years at the end of the first quarter. The company is also taking action to improve its cash flow. It has achieved significant cost savings at the property level and reduced its workforce significantly. Furthermore, General Growth is lowering its spending on new developments and is suspending the cash dividend for the time being. When reinstated, the dividend will likely be paid 90% in stock and 10% cash.

As of the first quarter, General Growth's trailing twelve month cash NOI actually grew by 1.4% on a year over year basis, or 2.4% if adjusted for lease termination income. As of the end of the first quarter, General Growth had net tangible assets of $1.536 billion, which equates to $5.15 per share. This tangible book value should actually increase while the company is in bankruptcy. The reason for this is that General Growth should generate funds from operations of over $2.00 per share, or $600 million, in 2009 as well as 2010, according to consensus estimates, or perhaps $400-$450 million per year after accounting for capital expenditures. While legal costs will likely be substantial while the company is in bankruptcy, the company should remain comfortably cash flow positive. Its operating metrics are as follows:

	2007	2008	2009E
Interest Coverage	1.6x	1.6x	1.5x
Operating Margin	67.3%	67.8%	67.7%
ROIC	10.1%	9.6%	8.8%
Same Store Rev. Growth	3.6%	1.4%	-4.0%

(2009 numbers represent our estimates based on the first quarter performance)

As this table shows, the company's operating metrics are fairly robust, despite the turmoil in the credit markets. Also, we note that Simon Property Group achieved a 2.7% year-over-year increase in its NOI in the recently reported first quarter (excluding lease settlements) and that company is guiding for same store regional mall NOI to be up 0%-1% for the full year 2009. Consequently, average market forecasts, which call for General Growth's NOI to decline by 4-5% in 2009, may be overly negative as its malls should perform in line with those owned by Simon Property. If the economy recovers, the General Growth malls will likely generate record profitability within the next 1-2 years. Furthermore, General Growth's occupancy rate ranks among the top of its peer group and is almost identical to peers such as Glimcher, Simon Property, Taubman, Macerich and Westfield, which all had approximately 90%-91% occupancy as of the end of the first quarter. We note that CBL and Pennsylvania REIT were the laggards with 88.9% and 83.8% occupancy levels, respectively.

An Unusual Bankruptcy Which May Set an Important Precedent

General Growth's bankruptcy is unique in that the company is profitable and its assets exceed its liabilities. The company has the cash flow to service its debt for the foreseeable future and even pay down significant amounts, although not as much as the current maturity schedule demands. At the end of the day, the creditors are only allowed to recover 100% of the face value of their claims plus interest. When a debtor's asset value exceeds the amount of its liabilities, equity holders are entitled to the residual value. Therefore, unlike most bankruptcies, in which equity holders lose most, if not all, of their value, it appears that in General Growth's bankruptcy, given its strong cash flow, a fair and equitable restructuring of the company that preserves value for all constituents, including secured lenders, unsecured lenders, employees, and equity holders should be possible.

General Growth faces nearly $19 billion of debt maturities by year-end 2011 and management has been unable to raise capital in this challenging debt environment. In fact, there are very few potential buyers for the company's malls, unless prices are reduced to bargain levels, which would not make financial sense for the company. Consequently, a handful of malls may be given up to lenders through deed-in-lieu transactions, and it is possible that a few sales may happen, but absent a major recapitalization with Simon Property, Taubman Properties and/or Westfield, there is little chance that General Growth will be able to sell a substantial number of malls. Given that the debt markets have been frozen, none of the company's peers has either sufficient independent resources or capital availability to undertake a transaction of any significance. Therefore, the prospects for liquidation are minimal at the current time.

William Ackman of Pershing Square made the analogy between General Growth and the situations that occurred at Alexander's Inc. and Amerco (U-Haul), which were in similar situations in that assets exceeded liabilities, and which eventually became very profitable for investors who bought the shares while the companies were in bankruptcy. Under different circumstances, creditors would likely have preferred the company to liquidate its assets, but given the size of General Growth, a liquidation is highly unlikely as it would put tremendous pressure on the commercial real estate market. That could trigger a domino effect whereby many other REITs would be forced to file for bankruptcy protection if the value of commercial real estate falls below the level at which they can be refinanced and debt covenants are triggered. This would also result in significant write-downs for banks with exposure to commercial real estate loans and CMBS investors.

General Growth's problem is not lack of profitability. It is simply a leveraged company with significant near-term maturities. However, in terms of high leverage, General Growth is not the exception, as many REITs have the same problem:

Company	Symbol	% leveraged
Penn REIT	PEI	97%
CBL & Associates	CBL	95%
Glimcher Realty Trust	GRT	93%
Macerich	MAC	76%
Taubman Centers	TCO	60%
Simon Property Group	SPG	55%
Westfield	WDC.AU	54%
Tanger Factory	SKT	46%

Source: Green Street estimates (5/14/09)

Therefore, General Growth is highly unlikely to liquidate its malls, in our opinion, or even to sell a substantial portion, since the prices received in the current market would be beneficial for neither equity nor debt holders. Restructuring the loans would allow for payments to be made, equity holders would remain intact, the banks again have performing loans on their books. The complicating issue is that much of the debt is in the form of CMBS, and holders of these instruments might not be as compelled to accept a deal compared to large lenders, which could negatively affect the outcome of restructuring.

If the bankruptcy lasts for an extended period of time, it is possible that a greater number of malls will ultimately be sold. General Growth's main competitor, Simon, is conserving cash by paying 90% of its quarterly dividend in stock. As a result, Simon is expected to generate around $1.5 billion in cash flow this year and more next year as expenses decline. Consequently, it may be able to eventually acquire certain properties from General Growth, perhaps in the next two-year period. However, prior to that, few competitors have the balance sheet to support financing for these malls and even if Simon spent $3 billion to acquire malls from General Growth, that would only equate to approximately 10% of its overall assets.

The outcome in this case may set the precedent for future bankruptcies by REIT and other commercial real estate companies, or may allow these companies to avoid bankruptcy. As a result, how this case is decided will most likely have a significant impact on the commercial real estate companies in the US and the lenders to this market. However, the bankruptcy will likely be a long, complex and not very transparent process, so investors will need to be patient.

Pershing Square Proposals

Hedge fund Pershing Square, headed by William Ackman, controls more than 25% of General Growth's common equity. It owns about 7.5% of the shares directly and controls another 18% through total return swaps, along with an undisclosed amount of the company's debt. To prevent a liquidation of General Growth, Pershing Square has suggested various avenues to reorganize the company. Mr. Ackman's proposals include a seven-year extension of all debt, a swap of unsecured debt for equity and, if all else fails, a court-ordered cram-down of interest rates. As these proposals are put forth by the largest shareholder and a member of the board of directors, we will discuss them in detail:

Seven-Year Extension

It has been proposed by Pershing Square that a seven-year extension of General Growth's secured and unsecured loans at their existing interest rates would provide the company with sufficient time to use cash flow from operations to delever its balance sheet. With a seven-year extension, in theory, the company should be able to repay existing creditors in full. This assumes that General Growth will, among other cash preserving actions, pay 90% of its dividends in stock rather than cash:

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	Total
Cash NOI (excl. MPC*) (1)	$2,421	$2,412	$2,390	$2,411	$2,462	$2,536	$2,612	
Growth	-4.8%	-0.4%	-0.9%	0.9%	2.1%	3.0%	3.0%	
Add: MPC	$73	-$38	$15	$25	$50	$75	$75	
Add: Fee Income	$98	$92	$90	$92	$96	$102	$108	
Less: Overhead From Recurring Ops (2)	-$269	-$272	-$274	-$277	-$280	-$283	-$286	
Less: Restructuring/Strategic Exp.	-$180	-$113						
Less: Maintenance CapEx	-$156	-$197	-$200	-$200	-$205	-$205	-$210	
Less: Development CapEx	-$183	-$99	-$138	-$138	-$140	-$140	-$145	
Less: Other (incl. income taxes)	-$50	-$28	-$30	-$30	-$30	-$30	-$30	
Less: Pro Forma Interest Expense - 6.04%	-$1,698	-$1,693	-$1,687	-$1,676	-$1,662	-$1,642	-$1,616	
Less: Cash Dividends (10% cash)	$0	-$16	-$6	-$6	-$15	-$29	-$47	
Cash Flow Available For Debt Repurchase	$55	$48	$160	$202	$277	$385	$462	$1,648
Illustrative Equity Value								
Propco Ent. Value (@7.5% cap rate)	$32,280	$32,155	$31,866	$32,153	$32,828	$33,813	$34,827	
Plus: Cash / GGMI / Dvpmt pipeline /MPC	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	
Less: Total Debt (EOP)	$28,059	$28,011	$27,851	$27,649	$27,372	$26,987	$26,525	
Illustrative Equity Value	$7,340	$7,263	$7,134	$7,623	$8,575	$9,944	$11,420	
Per Share	$24.47	$22.73	$22.32	$23.85	$26.83	$31.12	$35.74	

(US$ in millions, except per unit data) * MPC = Master Planned Communities (1) Cash flows based on 2009-2010 Cash Flow Forecast filed by the Company (2) Represents annualized Q1'09 overhead expense. Adjusts for seasonality and $38mm of restructuring costs included in overhead line items. Ignores the potential for incremental cost saves.

According to this proposal, secured and unsecured lenders would likely receive 100% of the present value of their claims, which should be good news for the $6.6 billion unsecured creditors, who Standard & Poor's estimate would collect only $0.10-$0.30 on the dollar in bankruptcy. Perhaps more importantly, it would prevent the liquidation of General Growth's assets at "fire-sale" prices which, if it were to happen, would most likely result in significant downward pressure on commercial real estate prices in general and, as a result, write-downs of the value of such real estate and the bonds and loans that are secured by such assets. If the term of General Growth's obligations is extended by seven years, the company's equity would clearly benefit, since the company could continue to operate and use its cash flow to slowly reduce debt. That would invoke the Miller-Modigliani capital structure invariance theorem, which holds that a company that reduces debt using cash flow from operations, all other things being equal, creates the opportunity for an increase in market capitalization of its equity.

We note that Pershing Square assumes a 2.4% decline in NOI for 2009, excluding the Master Planned Communities segment but including a $90 cash contribution from the sale of General Growth's Bridgeland property. The company was close to a deal to sell this property but recently backed out of that deal. Therefore, Pershing's NOI estimates have to be adjusted accordingly, as General Growth now plans to retain and ultimately develop Bridgeland. After taking out the expected Bridgeland contribution to NOI, it appears that Pershing expects a 4.8% decline in NOI in 2009. Annualizing the performance in the first quarter suggests a 4.4% deterioration in 2009. Minimum rents declined by 4.9% year-over-year in the first quarter, which means that Pershing Square's projections seem realistic, or slightly conservative. As mentioned above, Simon Property Group achieved a 2.7% year-over-year increase in its NOI in the recently reported first quarter (excluding lease settlements) and the company is guiding for same store regional mall NOI to be up 0%-1% in the full year 2009. As such, average market forecasts which call for General Growth's NOI to decline by 4%-5% in 2009 may be overly negative. If the economy recovers, the malls will likely generate record profitability within the next 1-2 years.

Another observation is that Pershing Square assumes that General Growth's debt holders will grant a 7-year extension without asking for anything in return, which may be overly optimistic. Such an extension could be accompanied by warrants or, perhaps more likely, actual equity. It is unlikely that bondholders will simply extend maturities without asking for compensation, and (secured) CMBS holders have even less incentive to extend debt maturities. As cash consent payments are out of the question, dilution of the existing equity is the only form of payment available. Even so, assuming that General Growth will have to dilute its existing shareholder base by 100%, the shares will still be worth $11-$12, a gain of around 500% from current level.

Unsecured Debt Converts into Equity
An alternative proposal involves converting General Growth's $6.6 billion of unsecured debt into equity. Under this scenario, even though the company's existing shareholders would get diluted, the company would be able to pay a meaningful cash dividend.

Using the illustrative equity value in the table below as a base, we can determine the percentage of this that equates to the $6.6 billion currently held by unsecured bond holders. Under this scenario, the unsecured creditors would require approximately 46% of the post-reorganization equity to be made whole:

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	Total
Cash NOI (excl. MPC)(1)	$2,461	$2,412	$2,390	$2,411	$2,462	$2,536	$2,612	
Growth	-4.8%	-0.4%	-0.9%	0.9%	2.1%	3.0%	3.0%	
Add: MPC	$73	-$38	$15	$25	$50	$75	$75	
Add: Fee Income	$98	$92	$91	$92	$96	$102	$108	
Less: Overhead From Recurring Ops (2)	-$269	-$272	-$274	-$277	-$280	-$283	-$286	
Less: Restructuring/Strategic Exp.	-$180	-$112						
Less: Maintenance CapEx / TAs	-$156	-$197	-$200	-$200	-$205	-$205	-$210	
Less: Development CapEx	-$183	-$99	-$138	-$138	-$140	-$140	-$145	
Less: Other (incl. income taxes)	-$50	-$28	-$35	-$35	-$35	-$35	-$35	
Less: Pro Forma Interest Expense (3) - 6.45%	-$1,392	-$1,392	-$1,392	-$1,392	-$1,392	-$1,392	-$1,392	
Cash Flow Available For Dividend	$361	$366	$457	$487	$557	$658	$728	$3,673
Cash Dividend Yield	2.7%	2.6%	3.4%	3.6%	3.9%	4.3%	4.4%	
Illustrative Equity Value								
Propco Enterprise Value (@7.5% cap rate)	$32,813	$32,155	$31,866	$32,153	$32,828	$33,813	$34,827	
Plus: Cash / GGMI / Dvlpmt pipeline /MPC	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	
Less: Total Debt (EOP)	-$21,588	-$21,588	-$21,588	-$21,588	-$21,588	-$21,588	-$21,588	
Illustrative Equity Value	$14,344	$13,686	$13,397	$13,684	$14,359	$15,344	$16,357	
Per Share	$24.44	$22.22	$21.31	$22.21	$24.32	$27.40	$30.58	
% equity required for unsecureds to get 100% of claims	46.0%	48.1%	49.2%	48.1%	45.9%	42.9%	40.3%	45.8%

Note: Assumes $6.6bn of GGP's unsecured debt converts fully into equity. (1) Cash flows based on 2009-2010 Cash Flow Forecast filed by the Company. (2) Represents annualized Q1'09 overhead expense. Adjusts for seasonality and $38mm of restructuring costs included in overhead line items. Ignores the potential for incremental cost saves. (3) Assumes weighted average interest expense of unsecured debt is 4.7%.

Using conservative assumptions, Pershing Square estimates that General Growth will be able to pay a 4.4% dividend yield by Year 7 under this scenario.

Cram-Down

If General Growth and its creditors cannot reach an agreement such as the proposed extensions or debt-equity swaps, it is possible, at least in theory, that the judge will order the "cram down" of the creditors, as long as each class of creditor receives the present value of their claims. If a creditor is not paid in cash or property upon emergence, it must receive future payments, the present value of which equals its bankruptcy claim.

There is a significant precedent, which Pershing Square points out, in the form of the case of Till vs. SCS Credit Corp. In this case, the judge decided that if an “efficient” market exists for the debt, then the court may apply the “market rate, “which is the rate that the market will bear for the proposed loan. Absent an efficient market, the court is to apply a “formula approach” involving setting the rate at the prevailing prime rate plus a “risk adjustment” rate generally between 1% and 3%. Given that General Growth is a much more profitable and stable company, it would likely be assigned a lower interest rate such as perhaps the prime rate plus 0%-1.5%, a rate that is significantly lower than GGP’s current weighted average interest rate.

In light of General Growth’s highly diversified, high quality portfolio, in a reorganization in which the unsecured debt converts to equity, the court may deem the Prime rate plus 0% to be a sufficient for the company’s secured debt. The justification for this is the opinion issued by Justice Stevens in the Till vs. SCS Credit Corp case, in which he stated that “We note that, if the court could somehow be certain a debtor would complete his plan, the prime rate would be adequate to compensate any secured creditors forced to accept cram down loans”. Since the Supreme Court ruling in 2004, the Till case has been applied innumerous bankruptcy proceedings.

A plan that sets General Growth’s secured debt and unsecured debt to Prime + 0.75% and Prime + 1.50% (assuming Prime is 3.25%), respectively, would allow for substantial deleveraging and further increase the probability of a highly successful reorganization:

	2009e	2010e	2011e	2012e	2013e	2014e	2015e	Total
Cash NOI (excl. MPC) (1)	$2,421	$2,412	$2,390	$2,411	$2,462	$2,536	$2,612	
Growth	-4.8%	-0.4%	-0.9%	0.9%	2.1%	3.0%	3.0%	
Add: MPC	$73	-$38	$15	$25	$50	$75	$75	
Add: Fee Income	$98	$92	$91	$92	$96	$102	$108	
Less: Overhead From Recurring Ops (2)	-$269	-$272	-$274	-$277	-$280	-$283	-$286	
Less: Restructuring/Strategic Exp.	-$180	-$112						
Less: Maintenance CapEx	-$156	-$197	-$200	-$200	-$205	-$205	-$210	
Less: Development CapEx	-$183	-$99	-$138	-$138	-$140	-$140	-$145	
Less: Other (incl. income taxes)	-$50	-$28	-$35	-$35	-$35	-$35	-$35	
Less: Pro Forma Interest Expense (3)	-$1,161	-$1,134	-$1,107	-$1,076	-$1,042	-$1,002	-$958	
Less: Dividend (10% cash)		-$126	-$120	-$124	-$137	-$155	-$177	
Cash Flow Avail. For Debt Repurchase	$652	$498	$622	$679	$770	$893	$985	$5,099
Illustrative Equity Value								
Propco Enterprise Value (@7.5% cap rate)	$33,082	$32,155	$31,866	$32,153	$32,828	$33,813	$34,827	
Plus: Cash / GGMI / Dvlp pipe /MPC	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	$3,119	
Less: Total Debt (EOP)	-$27,522	-$27,024	-$26,402	-$25,723	-$24,953	-$24,060	-$23,075	
Illustrative Equity Value	$8,679	$8,250	$8,583	$9,549	$10,994	$12,872	$14,870	
Per Share	$27.16	$25.82	$26.86	$29.89	$34.40	$40.28	$46.53	

(US$ in millions, except per unit data) (1) cash flows based on 2009-2010 Cash Flow Forecast filed by the Company. (2)Represents annualized Q1'09 overhead expense. Adjusts for seasonality and $38mm of restructuring costs included in overhead line items. Ignores the potential for incremental cost saves. (3)Sets secured debt interest rate at Prime + 0.75% (4.00%) and unsecured debt interest rate at Prime + 1.50% (4.75%).

It can be argued how realistic the "cram down" proposal is, since it would include a cram down on all of General Growth's CMBS debt. Such a judgment would likely cause turmoil in the CMBS market, given the company's size, as CMBS investors currently receiving around 6.5% suddenly may receive only 4% (prime + 75 bps). This would likely wipe out certain CMBS tranches, which may result in years of litigation before a cram down could even occur. Therefore, it is possible that the cram down proposal is primarily a scare tactic to pressure debt holders.

Valuation

There are a great number of ways to value General Growth Properties, and all valuation methods have to rely on a vast number of assumptions. While in a typical bankruptcy, liabilities exceed assets and common shares are generally canceled, in this case, the opposite is true and, therefore, the equity is highly unlikely to ultimately be worthless. Instead, it appears that, in this case, it is in almost all of the various constituencies' best interest to allow General Growth to continue to operate in order to maximize their recovery, as opposed to selling the assets at a fraction of cost.

Comparative Valuation

Before it entered bankruptcy, General Growth Properties was widely expected to generate $2.50 to $2.80 in funds from operations in 2009 and 2010, respectively. The company's shares are currently trading at less than 1.0x these estimates. Of course, it is impossible to discount the potential outcome of the reorganization, so this valuation would only have mattered in the absence of debt maturities, roll over risk and debt covenants.

As the table below indicates, General Growth is clearly not valued on its existing fundamentals:

Company	Symbol	Price 7/2/09	2009 P/FFO	2010 P/FFO	EV/ Rev	Price/ Book	FFO/ Rev.	Div. Yield	Market Cap.
CBL & Associates	CBL	$5.00	1.9x	2.2x	5.99x	0.75x	18%	8.8%	$355MM
Glimcher Realty	GRT	$2.61	1.4x	1.4x	5.53x	0.81x	23%	15.3%	$99MM
Macerich	MAC	$17.00	4.0x	4.7x	8.66x	0.52x	39%	14.1%	$1.3MMM
Penn REIT	PEI	$5.05	1.8x	2.0x	9.57x	0.35x	38%	11.9%	$203MM
RAMCO Gersh.	RPT	$9.00	4.1x	4.0x	6.19x	0.62x	31%	10.3%	$168MM
Simon Property	SPG	$50.15	8.5x	8.8x	7.89x	5.06x	41%	4.8%	$12.8MMM
Taubman Centers	TCO	$25.94	9.3x	9.5x	6.65x	NEG	24%	6.4%	$1.4MMM
			4.4x	4.6x	7.20x	1.35x	30%	10.2%	
General Growth	GGWPQ	$1.80	0.9x	0.9x	8.18x	0.35x	19%	0.0%	$535MM

At less than 1.0x this year's and next year's expected funds from operations, as well as 0.35x tangible book value, it should be obvious that General Growth would be significantly undervalued in the absence of its liquidity issues. In fact, based on its existing cash flow and book value, it would not be aggressive to value the company's shares at $10 or more. However, there is obviously significant uncertainty in how the company will be able to refinance its long-term debt and the likely dilution such actions would entail.

Valuation Based on Dividend

While it is difficult to predict the debt-equity structure of the company once it comes out of bankruptcy, one can establish, by informed estimation some basic scenarios based upon that which is known. One can even make such scenarios exceedingly, perhaps unrealistically, pessimistic. For instance, what if one were simply to assume that at some point, perhaps two or three years into the future, the financial crisis will be over and that General Growth's profitability will be diminished by 25% and, further, that it had to dilute the share count by 100%. Even under these fairly draconian circumstances, the company, which used to pay an annual dividend of 2.00 a share, would now be able to pay out only $0.75 per share.

At that point, a financially healthy REIT will most likely be trading at a dividend yield of 7-10%, which would indicate a stock price of $7-$10. Also the asset values will likely grow as a result of higher inflation as well as a potential recovery in real estate prices in general once financial markets return to a normal state of operations. Finally, the gradually increasing rents, as a result of rent escalation and upside participation when its retail tenants increase their sales, will likely drive income growth and dividend increases over the long term. This scenario assumes that General Growth is able to reorganize in a manner that allows current equity holders to retain a significant interest in the reorganized entity.

Valuation: Liquidation

In a regular bankruptcy case, liquidation would most likely be seriously considered as one of the best options for the company's creditors. Depending on how low the prices of the shopping malls have to go in a liquidation, the secured creditors may, theoretically, gain compared to the current trading level of the bonds. However, in this particular case, a liquidation would put significant downward pressure on commercial real estate values nationwide. In fact, it is possible that many other REITs and other leveraged real estate owners will suffer the same fate if GGP is forced to liquidate. If potentially 200 malls are sold in a fairly short time period, the market cannot support that type of supply, as potential buyers would likely have trouble getting financing, and prices would likely decline sharply as the malls would have to be placed on the market below "fire sale" prices to sell. As prices decline, the value of similar malls owned by other REITs would also decline and cap rates would increase dramatically, tripping debt covenants. As a result, a liquidation would likely create a cascading effect on the whole industry, as most leveraged commercial real estate companies with near-term maturities would have trouble rolling over debt, resulting in a multitude of bankruptcies.

To build a valuation model that assumes liquidation, current cap rates have to be taken into consideration. While this was discussed in depth in another part of this report, we can break out Rouse and the rest of GGP LP, as follows:

Rouse Valuation

As Rouse is a separate entity with its own debt, which is non-recourse to the rest of General Growth, we begin by reviewing its financial situation. Rouse's 2008 NOI, after stripping out the land sale business, was approximately $858 million. The company had $9,698 million of long-term debt at year-end 2008, and $2,243 million of that amount is comprised of the five tranches of corporate bonds issued under two distinct indentures (1995 and 2006). Consequently, Rouse had approximately $7,455 million of mortgages outstanding as of December 31. Assuming those mortgages are worth par, the bonds, which are currently trading at around 50 cents on the dollar, are implying a residual value of $1,122 to the bondholders, or a total distributable enterprise value of approximately $8.58 billion. This represents almost exactly a 10% cap rate, exclusive of other assets and liabilities. However, Rouse has significant amounts of other assets and liabilities. On the asset side, it has:

$476.5 million of developments in progress
$1,470.3 million of loans to/from unconsolidated affiliates
$1,698.4 million of investment in land and land held for development and sale
$25.4 million of cash

$154.6 million of Accounts Receivable
$135.6 million of Deferred Expenses
$606.6 million of Prepaid Expenses and Other

As most of these assets are comprised of loans to joint ventures and investment in land, the book values may or may not be realistic, since many loans in the industry over the past few years were granted at a loan-to-value ratio of 75% on a 5% cap rate. Therefore, it is possible that these assets have declined in value by 25-40%. In addition to its mortgage debt Rouse also has the following liabilities:

$861.4 million of Deferred Tax Liabilities
$570.5 million of AP and other accrued expenses

Therefore, theoretically, assuming that the company's loans and investments can be valued at face value, there is significant value in the Rouse segment:

Cap Rates	8%	9%	10%
2008 NOI	$858	$858	$858
Property Value	$10,725	$9,533	$8,580
Add: Other Assets	$4,567	$4,567	$4,567
Less: Liabilities	$9,698	$9,698	$9,698
Less: Other Liab.	$1,432	$1,432	$1,432
Equity Value	$4,163	$2,971	$2,018
Value per Share	$13.88	$9.90	$6.73

However, making adjustments to the asset values could eliminate the equity value, particularly as the company's obligation to the Howard Hughes heirs is still unknown and could potentially be costly.

<u>GGP LP Valuation.</u>
General Growth's NOI excluding Rouse is approximately $1.66 billion ($2.524 million minus the $858 million Rouse NOI). The company has a total of $27.3 billion of debt. Netting out Rouse's debt leaves GGP LP with approximately $17.6 billion ($27.3 billion-$9.7 billion). Consequently, based on the 2008 NOI, the maximum cap rate required in order that the equity can have any value would be 9.4%.

In addition, the actual prices received in a liquidation will most likely be significantly lower than current cap rates indicate, since very few buyers will have the financial strength to bid on these malls. Therefore, it seems unlikely that either General Growth's board of directors, its key lenders, or its Pershing Square partner would find a liquidation more attractive than an internal workout. It appears that if the company is forced to liquidate, equity holders would not be left with anything. However, it could be misleading to place a cap rate on all of the company's malls and use an aggregated NOI number, because some of the malls are more profitable than others and, therefore, would justify a lower cap rate in a sale. Therefore, in the following section, we attempt to value only the highest rated properties.

Valuation: "A"-rated Properties

General Growth's approximately 80 "A"-rated and high-profile malls generate around 75% of the company's NOI. If these top-rated, highly profitable, top quality malls could be valued at a cap rate of 7%, these assets alone would be worth more than its liabilities as the following example from Pershing Square indicates:

LTM Cash NOI (1)	$2,524
% of NOI from 'A' assets	75.00%
LTM Cash NOI - 'A' assets	$1,893
Illustrative Cap Rate - 'A' assets	7.00%
Asset Value - 'A' Assets	$27,038
Less: Total Debt (2)	-$28,174
Less: Preferred Debt	-$121
Less: Other Liabilities (3)	-$1,585
Plus: Cash (4)	$722
Plus: Other Assets (5)	$1,777
Plus: Development Pipeline (6)	$804
Net Asset Value - 'A' Assets	$462

(amounts in millions) Pershing Square estimates. (1) Excludes mgmt income. Adjusts for non-cash revenue items such as straight-line rent, FAS 141, and non- cash ground rent expense. (2) Includes $400mm DIP loan. (3) Excludes book value of deferred tax liabilities as these mostly relate to MPC. These are taken into account when valuing the MPC segment. (4) Includes $400mm DIP proceeds. (5) Excludes goodwill.(6) 20% discount to book value.

Therefore, if this valuation can be accepted, at current equity prices, which more or less equal the calculated value of the "A"-rated properties alone, investors receive 130 non-'A'-rated malls, more than 30 grocery-anchored strip centers, as well as General Growth Management Inc. at approximately no cost.

Sum-of-the-Parts Valuation

REIT

The implied cap rate in the valuation of Simon Property is currently 8.5%. Applying this cap rate to General Growth suggests that the value of the company's REIT operations (not including GGMI and MPC), is approximately $9.11 per share. Using a slightly lower cap rate of 7.5%, which would be justified if the restructured General Growth does not have near-term maturities, results in a valuation of around $21.50 per share.

	Low	High
LTM Cash NOI (1)	$2,524	$2,524
Cap Rate	8.50%	7.50%
Implied Value of GGP's REIT	$29,689	$33,647
Pro Rata for JVs:(2)		
Less: Total Debt (3)	-$28,174	-$28,174
Less: Preferred Debt	-$121	-$121
Less: Other Liabilities (4)	-$1,585	-$1,585
Plus: Cash (5)	$722	$722
Plus: Other Assets (6)	$1,777	$1,777
Plus: Development Pipeline (7)	$603	$603
Implied Equity Value	$2,911	$6,870
Per Share	$9.11	$21.50

(in millions, except per share data) (1) Excludes mgmt income. Adjusts for non-cash revenue items such as straight-line rent, FAS 141, and non- cash ground rent expense.(2) Applies 50% share to condensed balance sheet of unconsolidated real estate affiliates in 10-Q.(3) Includes $400mm DIP loan.(4) Excludes book value of deferred tax liabilities as these mostly relate to MPC. These are taken into account when valuing the MPC segment. (5) Includes $400mm DIP proceeds.(6) Excludes goodwill.(7) 40% discount to book value

MPC

The net value of General Growth's MPC segment can be estimated to be around $4.66 per share, assuming a 50% discount to its December 2007 book value. As that point in time, the company's management estimated the gross value of these assets to be $3.3bn, or more than $10 per share.

Estimated Value Per Share	
Gross Value of MPC as of 12/31/07 (1)	$3,280
Memo: Net Book Value (as of 3/31/09)	$1,391
Discount in Current Market	50%
Adj. Gross Value of MPC	$1,640
Less: Present Value of Deferred Tax Liability (2)	-$250
Net Value of MPC	$1,390
Per Share	$4.66

In millions, except per share data. Note: Does not reflect impact of Contingent Stock Agreement, which could, in certain circumstances, create meaningful dilution. (1) Represents management's valuation of the gross assets as of 12/31/07. Source: page 22 of Q3'08 operating supplement. (2) Pershing Square estimate. The present value of the tax liability will depend on the operating performance of the segment.

GGMI Valuation
GGMI is one of the few national platforms capable of providing management and leasing services to regional retail centers.

	Low	High
LTM Management Income & other fees	$100	$100
EBIT Margin (1)	15.00%	25.00%
LTM EBIT	$15	$25
Multiple	10.0x	12.0x
Value of GGMI	$150	$300
Per Share	$0.50	$1.00

($ in millions, except per share data) (1) Estimate.

While it may not be a perfect comparison, CB Richard Ellis trades at approximately 17x its consensus EBIT for 2009. It could be argued that GGMI deserves a higher multiple given that CB Richard Ellis's revenue stream is more transaction driven.

<u>Summary: Sum-of-the-Parts Valuation</u>

Using the above estimates for the three different parts of the company results in the following table:

Value Per Share	Low	High
GGP REIT	$9.11	$21.50
GGMI	$0.50	$1.00
MPC	$4.66	$4.66
Value Per Share	$14.27	$27.16
Potential Gain	692%	1,409%

Again, the mid-point of this valuation exercise points to a fair market price of slightly over $20 per share.

Summary & Recommendation

General Growth is clearly a very difficult company to value at the current time, as its reorganization can ultimately take many different shapes. Prices of commercial real estate have declined significantly in the past two years, partly because potential buyers are having difficulty obtaining financing. As a result of this, cap rates have risen and many real estate companies have gotten in trouble as supply has exceeded demand and their asset clearing prices have declined while their liabilities remain intact. General Growth currently finds itself in that situation, since the value of its assets (primarily shopping malls) declined to a level at which they were impossible to refinance in the current market. While it is possible to envision a scenario in which General Growth is forced to liquidate its assets to repay creditors, at which point the equity would be worthless, it seems a very remote possibility, since it would create significant hardship not only for both equity and debt holders of General Growth, but also for the entire REIT industry and its lenders. Consequently, the bankruptcy will likely result in a true reorganization, because the company has sufficient cash flow to service its debt and its properties are performing well financially, even in the current economy.

While the bankruptcy process may be long and not always transparent, patient investors will likely be rewarded. Most of the valuation estimates in this report point to a fair value of the equity of around $15-$20. Consequently, if those valuations can be accepted as realistic, at the current stock price of $1.80, the market is, in fact, assuming that General Growth will have to dilute its shareholder base to the extent that only 10% of the reorganized company will be held by current shareholders. Some of the valuations discussed in this report already assume a certain dilution, so an additional 90% discount to those estimates appears to be unwarranted. As a result, as there appears to be very little risk of a liquidation, the equity will most likely have significant value at the end of the reorganization. The market is currently placing a substantial discount rate on General Growth’s future earnings stream and patient, long-term investors will most likely earn a return equivalent to this discount rate over the next few years. As a result, the shares offer a significant potential reward for the risk taken, in our opinion. Therefore, shares of General Growth Properties are recommended for purchase.

GENERAL GROWTH PROPERTIES, INC. - CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	March 31, 2009	December 31, 2008
	(Dollars in thousands)	
Assets:		
Investment in real estate:		
Land	$ 3,359,714	$ 3,354,480
Buildings and equipment	23,361,227	23,609,132
Less accumulated depreciation	(4,388,406)	(4,240,222)
Developments in progress	1,004,869	1,076,675
Net property and equipment	23,337,404	23,800,065
Investment in and loans to/from Unconsol Real Estate Aff.	1,864,353	1,869,929
Investment property and property held for dvlpmnt & sale	1,774,681	1,823,362
Net investment in real estate	26,976,438	27,493,356
Cash and cash equivalents	195,745	168,993
Accounts and notes receivable, net	385,982	385,334
Goodwill	230,901	340,291
Deferred expenses, net	325,333	333,901
Prepaid expenses and other assets	789,013	835,455
Total assets	$28,903,412	$ 29,557,330
Liabilities and Equity:		
Mortgages, notes and loans payable	$24,702,810	$ 24,756,577
Investment in and loans to/from Unconsolidated Real Estate Affiliates	31,922	32,294
Deferred tax liabilities	867,866	868,978
Accounts payable and accrued expenses	1,347,854	1,539,149
Total liabilities	26,950,452	27,196,998
Redeemable noncontrolling interests:		
Preferred	120,756	120,756
Common	41,049	379,169
Total redeemable noncontrolling interests	161,805	499,925
Commitments and Contingencies	—	—
Preferred Stock: $100 par value; 5,000,000 shares auth.; 0 issued and outstanding	—	—
Equity:		
Common stock: $.01 par value; 875,000,000 shares authorized, 313,765,893 shares issued as of March 31, 2009 and 270,353,677 shares issued as of December 31, 2008	3,138	2,704
Additional paid-in capital	3,790,786	3,454,903
Retained earnings (accumulated deficit)	(1,884,668)	(1,488,586)
Accumulated other comprehensive loss	(65,243)	(56,128)
Less common stock in treasury, at cost, 1,449,939 shares as of March 31, 2009 and December 31, 2008	(76,752)	(76,752)
Total stockholders' equity	1,767,261	1,836,141
Noncontrolling interests in consolidated real estate affiliates	23,894	24,266
Total equity	1,791,155	1,860,407
Total liabilities and equity	$28,903,412	$ 29,557,330

GENERAL GROWTH PROPERTIES, INC. CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
	(Dollars in thousands, except for per share amounts)	
Revenues:		
Minimum rents	$ 499,107	$ 524,942
Tenant recoveries	233,019	231,632
Overage rents	10,025	13,518
Land sales	8,986	9,066
Management and other fees	19,198	20,239
Other	18,305	30,925
Total revenues	788,640	830,322
Expenses:		
Real estate taxes	71,558	68,649
Repairs and maintenance	55,356	62,100
Marketing	7,576	12,276
Other property operating costs	103,701	111,520
Land sales operations	10,614	9,921
Provision for doubtful accounts	10,332	2,709
Property management and other costs	43,408	52,138
General and administrative	45,825	8,098
Provisions for impairment	331,093	372
Depreciation and amortization	204,615	184,259
Total expenses	884,078	512,042
Operating (loss) income	(95,438)	318,280
Interest income	730	557
Interest expense	(328,489)	(325,692)
Loss before income taxes, noncont. interests and equity in Unconsolidated Affil	(423,197)	(6,855)
Benefit from (provision for) income taxes	11,514	(9,392)
Equity in income of Unconsolidated Real Estate Affiliates	(7,538	(23,828)
Loss) income from continuing operations	(404,145)	(7,581)
Discontinued operations — loss on dispositions	(55)	—
Net (loss) income	(404,200)	7,581
Allocation to noncontrolling interests	8,118	(4,221
Net (loss) income attributable to common stockholders	$ (396,082)	$ 3,360
Basic and Diluted (Loss) Earnings Per Share:		
Continuing operations	$(1.27)	$0.01
Total basic and diluted (loss) earnings per share	$ (1.27)	$ 0.01
Dividends declared per share	—	$0.50