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Model transformation leads to a future for GGP

REAL ESTATE

News analysis

Recapitalisation of shopping mall group may show a path out of CMBS woes, write **Helen Thomas** and **Nicole Bullock**

Bankruptcies rarely end happily. Yet when General Growth Properties, which owns about 200 US shopping malls, emerges from Chapter 11 as expected this week, the company's lenders would have been paid in full or will be.

Shareholders last year saw shares in the country's second-biggest mall owner, which operates famous sites such as South Street Seaport in Manhattan and The Grand Canal Shoppes at The Venetian in Las Vegas, fall below 50 cents from an early-2007 high of nearly \$70.

But they will now own about a third of a recapitalised GGP, with the shares having recovered to just below \$18, and have a large stake in a new company housing GGP's development properties.

This success story – in what constitutes the first major restructuring of commercial mortgage-backed securities – could, GGP's bankruptcy judge said, act as “a model as to value that can be preserved for the benefit of all stakeholders”.

“This should permit other CMBS restructurings to happen out of court,” says James Sprayregen, partner at Kirkland & Ellis, pointing to the approximately \$700bn securities due to mature before 2017. “The very fact that people now know it can be done in court will help them reach agreement out of court.”

Earlier this year, an investor group led by Brookfield Asset Management and backed by activist investor Bill Ackman saw off takeover interest from Simon Property Group, agreeing to invest \$6.5bn of new equity in GGP.

But the foundations for the



The Grand Canal Shoppes at The Venetian in Las Vegas, operated by General Growth Properties

Getty

company's rehabilitation were laid long before that battle. In late 2008, the company faced vast maturities of CMBS debt with about \$9.9bn due by 2012.

“The company would have had a difficult time rolling over its debt even before Lehman,” says Ken Buckfire, managing director of investment bank Miller Buckfire, referring to the bankruptcy of Lehman Brothers in September 2008. “After Lehman, it was impossible.”

In spite of almost \$28bn of debt and slumping mall values, GGP remained solvent. But it needed to prevent lenders seizing property as their loans became due.

For the company's restructuring team – Miller Buckfire and Alix Partners, alongside two law firms, Kirkland & Ellis and Weil Gotshall & Manges – there were two initial headaches.

The first was the controversial decision to put the entire company into bankruptcy in April 2009, including 162 special purpose – supposedly “bankruptcy-remote” – entities.

“The company could have bought itself a little time if it attempted to resolve its loan maturities on a piecemeal basis but it would have lost all strategic flexibility to negotiate with the creditors as a group,” argues Ronen Bojmel, managing direc-

tor at Miller Buckfire.

“The real estate industry was under the incorrect impression that these CMBS vehicles could not file for bankruptcy,” says Mr Sprayregen. “But with such a complicated structure, it was difficult to see how you could have an organised, accelerated process out of court.”

In the event, investors' worst fears – that the SPEs would be consolidated with the rest of the company in bankruptcy – were not realised. But GGP's case has already prompted a rethink of

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the boom-time documentation for CMBS financings.

Dan Rubock, senior vice-president at Moody's Investors Service, says: “The market responded very clearly and fairly uniformly in crafting provisions for future CMBS deals that effectively address the key factors in allowing SPEs at GGP

to go into bankruptcy.”

The second difficulty for GGP's team was securing bankruptcy financing when lenders were effectively closed for business.

Bill Ackman, a large GGP shareholder, offered financing without covenants that helped draw out similar proposals. “All of a sudden, the same institutions that the week before were telling us they needed very tough terms changed their approach,” recalls Tom Nolan, GGP chief operating officer. The team set about separately negotiating terms on \$15bn of mortgage debt across 103 loans. Their success became apparent as GGP's mall vehicles were allowed to leave bankruptcy ahead of the holding company and the stock rose.

By the end of 2009, the shares had climbed to \$12, setting the stage for the fight between Brookfield and Simon Property Group.

GGP and its advisers argue that the case illustrates the merits of Chapter 11, which prevented the company being taken apart, mall by mall.

For Mr Sprayregen, the lessons of GGP are simple. “Don't assume anything, think creatively and read the documents. Conventional wisdom was that you couldn't do this.”