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RETAIL

Brookfield purchase of GGP a in-win, say experts

By Kyle Campbell

Brookfield Property Partners has acquired shopping center specialist GGP Inc. for $9.25 billion, adding 125 retail properties to its portfolio.

In addition to the stock purchase, Brookfield offered more than $6 billion in equity, bringing the aggregate value of the deal to $15.3 billion.

Beginning with a one-third controlling stake in the REIT, Brookfield announced its intention to acquire GGP's remaining shares last fall for $23 per share. In the final transaction Brookfield up its offer to $23.50 per share. At the time of the announcement, GGP shares were trading at $21.21.

GGP shareholders can opt for either a cash payout, one unit of Brookfield Property stock or a share of a new publicly traded trust, the Brookfield Property Partners U.S. REIT. Investors have 20 years to take advantage of this offer.

Daniel Hurwitz, head of GGP's Board of Director's Special Committee, said the deal marks a significant improvement from the initial iteration from last year.

"After careful consideration, assisted by our independent advisors, the Special Committee determined that Brookfield's improved proposal, which includes an increase in the cash portion of the consideration and the ability to receive shares in a newly listed REIT entity, provides GGP shareholders with certainty of value, as well as upside potential through ownership in a globally diversified real estate company," Hurwitz said in a statement.

"We are pleased to have reached this agreement, which we believe is in the best interests of GGP and our shareholders."
Once known as General Growth Properties, the Chicago-based company filed for Chapter 11 in 2009. At the time it was the largest real estate bankruptcy ever. The following year, a group of investors led by Brookfield Asset Management recapitalized General Growth, spun off its assets and created a publically traded real estate investment fund.

When Brookfield made its first public proposal, Green Street Advisors estimated GGP's net value well above the $19 it was trading for at the time. Combined, Brookfield and GGP have $90 billion in total assets and annual net operating income of $4 billion. Brookfield, which owns and operates properties around the globe, is already one of the biggest real estate companies in the world, entering the deal with $68 billion worth of holdings in a variety of asset classes. In the transaction, it acquires one of the largest retail portfolios in the country as well as more than a dozen office properties.

Stock market analysts have questioned GGP's recommendation that shareholders accept the new offer, asserting that its assets are worth much more than where shares are trading. There are also fears the deal will have a ripple effect as mall owners continue to grapple with a changing retail landscape that has giants such as Toys R Us and Seas leave gaping holes in their plazas.

BRIAN KINGSTON

Brian Kingston, chief executive of Brookfield Property, said both sides took steps to provide maximum value to GGP's investors in the deal. "This is a compelling transaction that enables GGP shareholders to receive premium value for their shares and gives them the ability to participate in the long-term upside of their investment," he said.

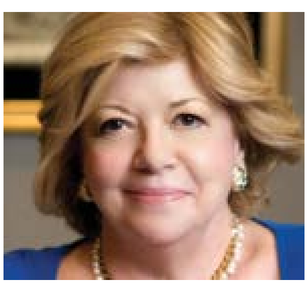
"We are pleased to have reached an agreement and are excited about combining Brookfield's access to large-scale capital and deep operating expertise across multiple real estate sectors with GGP's portfolio of irreplaceable retail assets."

Michael P. Niemira, chief economist at The Retail Economist consulting firm, said the deal works in Brookfield's favor because he believes some of GGP's properties may have been undervalued and the REIT had already shed some of its less profitable holdings.

For Brookfield, the key is the location of the properties more than the tenants within them, Niemira explained.

"Those properties that remain successful with increased restaurant, entertainment, and other service content are a win," he said. "Those with good location, but weak retail can be redeveloped into office, residential, or mixed use—another win."

Scott Holmes, national retail director with Marcus & Millichap, said the industry expects the deal to be the first of many acquisitions and consolidations in the mall industry. "GGP owns many of the best malls with the highest occupancies, so I know that many were disappointed about the final pricing here, believing it to be undervalued, due to the current negative sentiment about mall retail specifically. Most of what they have is great quality real estate, and now that becomes part of a larger better-capitalized company. This should be a good thing long-term for the properties owned by GGP.**"**



FAITH CONSOLO

Faith Hope Consolo, chair of Douglas Elliman's Retail Leasing, Marketing and Sales Division, believes the acquisition shows how difficult it is for a family-owned company such as GGP — started by brothers George and Matthew Bucksbaum in 1954 — to compete against corporate titans in today's market. "We're in a world now where the big just keep getting bigger," she said.

Despite the struggles and stagnation of the retail market nationwide, Consolo views Brookfield’s acquisition of GGP as a positive sign for the industry.

“What I see here is two very successful, very good companies in the industry uniting,” she said. “It shows confidence in the market because Brookfield wouldn’t make this kind of buy if they didn’t believe things would return to stability in the near future.”