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General Growth Properties to create new REIT: Rouse Properties

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General Growth Properties' plan to spin off 30 lower-tier malls to a new REIT it will call Rouse Properties is the latest step in the REIT's strategy to break its portfolio of disparate properties into smaller, more streamlined and more manageable entities, according to CEO Sandeep Mathrani.

This strategy contrasts with that of some other large mall REITs, which strive to achieve economies of scale by leveraging a large and diverse portfolio of properties. "One of the mistakes made in the prior regime in our opinion was that we tried to exert influence because of the size of the company," Mathrani said. He said that many small private owners that focus exclusively on class-B malls do a better job of maximizing profits at such properties than larger public companies that own assets ranging from A to C.

The spin-off will enable General Growth to focus on 'A' properties such as Honolulu's Ala Moana Center, while Rouse Properties pursues redevelopments and other strategies more appropriate to the firm's class-B properties. It will also eliminate $1.1 billion of debt associated with the Rouse properties from General Growth's balance sheet. Additionally, General Growth's tenant sales would increase from $465 per s/f to almost $500 million per s/f.

General Growth executives decided which of the firm's malls would be included in the Rouse spin-off based on human capital requirements, capital structure, location and tenant mix, Mathrani said. Many of the properties in the new Rouse portfolio were acquired through General Growth's purchase of Salt Lake City-based JP Realty in 2002 for $1.1 billion. The 21.2 million s/f Rouse portfolio is 88% leased and accounts for about 7% of General Growth's current net operating income and 12% of its square footage.

General Growth will create the new REIT by offering its common stockholders ownership in Rouse Properties through a taxable special dividend in the fourth quarter. Miek McNaughton, General Growth's executive vice president of asset management will become COO of Rouse Properties. The firm has yet to fill the CEO and CFO slots.

General Growth will not own any interest in Rouse and won't provide any capital to support it once it's spun out. Future operations will be funded by Rouse's cash flow. Mathrani said General Growth has already lined up unnamed investors "with deep roots in the real estate industry" to help finance the new Rouse Properties if it needs additional capital.

Mathrani raised the possibility of selling the entire new Rouse Properties REIT once it is formed. "If there is a buyer who wants to come in and buy the assets, once the filing is done and the projections of the plans are in place, we will be all ears to listen," he said.

General Growth bought The Rouse Co. for $12.6 billion in 2004, when Columbia, Md.-based Rouse owned 40 million square feet of retail space. Unable to raise money to service loans that financed its expansion because of moribund debt markets, the REIT filed for bankruptcy protection in 2009. After emerging from bankruptcy protection in 2010, General Growth conducted a similar spin-off of mixed-use and residential properties into a separate company called Spinco.