General growth to split itself in two

Michael J. de la Merced

General Growth Properties plans to unveil a bankruptcy reorganization plan that would split it into two companies, with Brookfield Asset Management as a major investor, a person briefed on the matter told DealBook on Wednesday.

The reorganization plan, set to be announced later on Wednesday, is meant to fend off an unsolicited $10 billion takeover offer from the Simon Property Group. While it would leave General Growth independent upon exiting Chapter 11 protection, it would make Brookfield one of its largest equityholders.

The plan would cleave General Growth into a larger, healthier entity that owned at least 170 of the company's malls and a smaller one that owned about 28 or so less desirable properties, as well as several noncore businesses, this person said.

Brookfield would invest about $2.5 billion to gain a 30 percent stake in General Growth Properties, the healthier company, and about $125 million to gain a 7 percent stake in the smaller General Growth Opportunities entity.

General Growth plans to borrow about $1.5 billion in unsecured debt as part of its reorganization plan, this person said.

General Growth's board met Wednesday morning to discuss the plan, and the company later held a conference call with unsecured creditors to brief them on the proposal, this person said.

Spokesmen for General Growth, Brookfield and Simon had no immediate comment.

With its new plan, General Growth is hoping to persuade the federal judge overseeing its bankruptcy case that it should have another six months of exclusivity to iron out the reorganization. Should it be granted, Simon would be hard pressed to move on its own takeover effort. A hearing on the exclusivity extension is scheduled for next Wednesday.

One of the key points of General Growth's new plan is that it would value the healthier company's stock at a minimum of $15 a share, this person said, with shares in General Growth Opportunities being paid out to existing shareholders as a dividend. Simon's plan would pay equity holders about $9 a share, including $6 in cash and $3 in an interest in General Growth's residential development operations.

According to estimates by one of General Growth's biggest equityholders, the hedge fund Pershing Square Capital Management, the company's shares should be worth between $24 a share and $43 a share.

Simon has hoped to convince General Growth's creditors that its plan offers a sure, stable exit from Chapter 11. Its proposal would pay off General Growth's $7 billion in unsecured debt in full and in cash, and would assume the bankrupt company's roughly $21 billion in secured debt in full.

By contrast, General Growth's plan will selling shares as part of a big financing campaign.

As with the Simon proposal, General Growth would pay off its $7 billion in unsecured debt, though it would likely involve exchanging some creditors' holdings for equity.

Swayed by the promise of being paid in full and in cash, General Growth's unsecured creditors committee has supported holding talks between their debtor and Simon. But it is unclear whether some of those creditors would accept receiving stock as part of their repayment.

A lawyer for the unsecured creditors committee was not immediately available for comment.

Simon has been holding talks with several potential partners, including the Blackstone Group and sovereign wealth funds, about co-investing in the General Growth bid. One possibility is Simon raising its offer.

Fonte: New York Times, New York, Feb. 24th 2010, Business, online.