

No. 2 mall operator warns of bankruptcy

General Growth Properties blames weak retail sales and a credit market freeze.

NEW YORK (CNNMoney.com)—General Growth Properties Inc., the No. 2 mall operator in the United States, has warned that an ongoing slump in retail sales, combined with the credit market lockdown, has pushed the company to the brink of bankruptcy.

Chicago-based General Growth Properties said in an SEC filing late Monday that it has \$900 million of property secured debt and \$58 million of corporate debt coming up for renewal by Dec. 1. It also faces another \$3.07 billion in debt that matures in 2009.

But “given the continued weakness of the retail and credit markets,” the mall operator fears it may not be able to refinance its loans at lower rates to meet its short-term cash needs.

Shares of General Growth Properties (GGP) tumbled 66% to 46 cents on Tuesday.

General Growth announced in August that it might sell some assets to raise capital for servicing its debt. The company operates more than 200 malls—including the Paramus Park Mall in New Jersey, Cumberland Mall in Atlanta, Water Tower Place in Chicago and the Glendale Galleria in California—in 44 states.

“Our potential inability to address our 2008 or 2009 debt maturities in a satisfactory fashion raises substantial doubts as to our ability to continue as a going concern,” the company said in the filing.

Retail real estate experts say other large mall operators could find themselves in the same situation as General Growth.

Several of them have significant debt coming up for renewal at the end of 2008 and early 2009.

Given the tight credit environment and dismal forecasts for retail sales in the fourth quarter, analysts said lenders probably won't refinance those loans at lower rates.

If General Growth does file for bankruptcy, the company's real estate portfolio could be broken up and its malls acquired by other mall operators, said Ivan Friedman, president & CEO of RCS Real Estate Advisors.

“General Growth has some very valuable properties,” he said.

Although Friedman said it's extremely rare for a mall to be shut down, Friedman did warn that falling store occupancies pose a real challenge to mall operators.

A worsening economy has forced more Americans to clamp down on their shopping habits. Subsequently, a pronounced slump in retail sales has forced many chain stores to exit malls.

Store vacancies at regional malls are up 6.6%, the largest increase since early 2002, according to real estate research firm Reis.

In some malls, store occupancy rates are falling below 75%.

“You can keep a mall open with 60-70% [store] occupancy,” Friedman said. “But if it falls to below 40%, then the weakest malls could be forced to close.”

“We are in a real retail tsunami right now,” Friedman said. ■