High-levered REIT gets hammered

General Growth Properties' longtime CFO shown door as stock price is halved in a week. CAO steps in for now.

By Beth Braverman

BERNIE FREIBAUM, LONGTIME CHIEF financial officer of beleaguered real estate investment trust General Growth Properties, is no longer with the company, GGP announced Friday morning.

Senior vice president and chief accounting officer Edmund Hoyt will serve as interim CFO while the company seeks a permanent replacement for Mr. Freibaum.

The announcement capped a week that saw GGP's stock price fall more than 50% on news reports that insiders, including Mr. Freibaum, had been selling their shares to meet margin calls. The stock ticked up Friday on the news of the executive change.

GGP said all current officers had repaid in full all previously existing margin loans, and that there would be no further sales of company stock to satisfy margin calls. The Bucksbaum family—which founded the Chicago-based company and includes chief executive John Bucksbaum—has not sold and does not expect to sell any company stock, GGP said.

GGP FELL 50% ON NEWS THAT THE CFO AND OTHERS HAD BEEN SELLING THEIR SHARES TO MEET MARGIN CALLS.

Mr. Freibaum sold nearly 3 million shares of common stock and applied all the proceeds to repay outstanding margin debts. After those sales, Mr. Freibaum owns about 1.3 million shares and has about $3.4 million in margin debt outstanding, according to GGP.

Securities and Exchange Commission filings show that chief accountant Mr. Hoyt also sold GGP shares, unloading about 100,000 in the past two weeks.

The company also announced Friday it would suspend its common stock dividend. Under the law that governs REITs, the investment vehicles must pay out 90% of taxable income as dividends. GGP said it has already satisfied the requirement this year.

Deutsche Bank analyst Lou Taylor praised the move to suspend the dividend. "There is limited capital available in the market for anything right now," he said. "For a company like GGP to pay a large dividend when they have other, more pressing needs for that capital doesn't make sense."

The CFO swap will clearly cause "near-term disruption," Banc of America Securities analyst Christy McElroy wrote Friday. "If and when the dividend is reinstated next year, allowing the company to maintain REIT status, we would expect a lower payout, as the company will likely defer all unnecessary uses and focus on deleveraging the balance sheet."

GGP has far more leverage than many REITs, with a debt-to-capital ratio of 70.8% at the end of June (the average ratio for an equity REIT was 42%), and the credit crisis has investors questioning its ability to refinance a debt load that includes some $1 billion coming due this year and $3 billion in 2009.

"Those relatively near-term maturities are placing a strain on the company's liquidity profile because the company does not have a lot of alternative sources of capital," said Fitch Ratings analyst Steven Marks.

To date, GGP has made its debt payments on time. A spokesman did not return calls for comment.

GGP's falling share price pushes its debt ratio up further, making it even harder to raise money, said Lawrence Longua, a professor at New York University's Schack Institute of Real Estate.

"It makes it difficult or impossible to raise debt," Mr. Longua said. "And they can't raise equity as their stock goes down, so they're stuck in a box. I don't know how you get out of that situation."

GGP last month said it is considering asset sales or a capital infusion to meet short-term obligations. It also could be an accquisition target. Mr. Longua suggests Simon Property Group.

"Simon could easily absorb GGP," Mr. Longua said, noting its $19 billion market capitalization. "This company has a market cap of $2 billion. Simon could lose that money in rounding." FW