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Simon's Hostile Bid for Macerich Signals a New Round of Regional Mall Buys

Mall Deal Volumes, Prices Increasing as Same Group of Buyers Re-Emerges in Battle for Top Assets

Here is what happened the last time a major player entered the mall sales arena. In 2012, Simon Property Group went on a major acquisition run, triggering a flurry of sale transactions. The volume of regional mall sales tripled and property values for regional shopping malls shot up more than 50% that year as other major institutional investors followed their lead.

Now Simon is off and running again, and so are regional mall sales and values.

This week, Simon Property Group (NYSE:SPG) took the next step in its pursuit of The Macerich Co. (NYSE:MAC), going public with an unsolicited proposal to acquire all of Macerich's outstanding stock for $91 per share, about $16 billion in total stock value.

The total value of the proposed transaction is $22.4 billion, once the assumption of Macerich's $6.4 billion of outstanding debt is factored in.

In 2010 and 2011, major mall sale volumes tallied less than $2 billion per year. Buyers paid less than $150/square foot in 2010 and about $175 in 2011. Mall sales remained muted as investors warily gauged consumer spending and the impact of online retail sales on malls.

Following the recession, the mall market divided between the haves and the have-nots, as top-tier properties continued to attract shoppers in droves while older, lower-quality malls suffered further declines in sales.

Simon signalled a new round of mall sales activity in the first quarter of 2012 when it cut a deal to buy out joint venture partner Farallon Capital’s stake in 26 Mills malls for $1.5 billion. Other major buyers followed suit: General Growth Properties, WP Glimcher, Starwood Capital, Macerich and international capital made deals as well as total mall sales that year reached $5.9 billion and the average sale price shot up to about $266 per square foot.

Now, those same buyers are showing up this go-around as well.

Simon signaled its intent to go after Macerich last November when it disclosed the acquisition of a 3.6% stake in its rival mall owner, equivalent to 5.71 million shares, kicking off a new round of competition amoong the top mall owners for market share.

"While Simon continues to focus on the redevelopment and expansion of its current portfolio, as well as the development of new premium outlet centers, it also seems to be more willing to undertake acquisitions of stabilized high-producing malls," Nomura Securities noted in a March 5th report. "The firm has recently completed the purchase of Jersey Gardens (to be renamed The Mills at Jersey Gardens) and University Park Village as part of WPG's acquisition of Glimcher. It also recently announced a joint venture with Hudson Bay to acquire 42 anchor boxes."

As part of its strategy to acquire Macerich, Simon said it has an agreement in principal to sell selected

Macerich malls to General Growth Properties, the second-largest mall owner after Simon, should a deal for Macerich materialize. Analysts said the side deal with GGP appears to offer Simon several benefits. Any sales to GGP raise money to fund the acquisition, also they would help appease any potential anti-trust concerns from regulators, while also keeping a potential rival bidder at bay.

GGP, for its part, also appears to be preparing for this outcome, raising a substantial sum from its recently announced sale of a 25% stake in its Ala Moana retail and office complex in Honolulu, HI, to an Australian pension fund in a transaction that values the center at a $5.5 billion.

In addition, GGP reported that it may sell an additional 12.5% equity interest in the trophy asset within the next 60 days, which would result in a gain of approximately $485 million that GGP said it plans to use to fund "a pending acquisition."

Macerich has been doing some shopping of its own, consolidating its ownership in several of its mall properties. In November 2014, the company bought out its joint venture partner's 49% interest in Queens Center, Washington Square, Los Cerritos Center, Stonewood Center and Lakewood Center from a wholly-owned subsidiary of the Ontario Teachers' Pension Plan Board for $1.8 billion, including the assumption of $672 million of property-level debt.

Also in November 2014, Macerich bought out joint venture partner AWE Talisman's 40% interest in Fashion Outlets of Chicago for $70 million to own the recently-developed, 529,000-square-foot center outright.

The market posted $2.2 billion in regional mall sales in 2014 with more than half of that ($1.4 billion) occurring in the fourth quarter. So far this quarter, buyers have rung up $1.9 billion in regional mall sales.

In the second quarter of 2014, when several lower-quality malls changed hands, the average sale price for malls was $134 per square foot. So far in 2015, with investment activity shifting to top tier malls, sale prices have jumped to a range of $200 perr square foot to almost $480 per square foot.

All Eyes on Trophy Assets
The crown jewel in the Macerich portfolio is considered to be Tysons Corner Center, a 2.1 million-square-foot super regional mall in the northern Virginia suburbs outside Washington, DC. A major expansion is underway that will add a 30-story, 430-unit apartment tower and a 300-room Hyatt Regency hotel expected to reach completion in the first half of 2015. The new multifamily and hotel components are in addition to the 527,000-square-foot office tower which opened in August 2014 with major tenants Intelsat and Deloitte.

Fairfax County, Virginia assesses the value of the Tysons Corner Center at $1.55 billion.

“When you are best-in-class and innovative, there will always be a demand for your assets or portfolio. Simon’s desire to spend $22 billion to acquire Macerich is a case in point,” said Soozan Baxter a Manhattan-based retail leasing services consultant to landlords. “Tysons Corner, which I have been visiting my entire life, has transformed over the years. Taking out the JC Penney box a decade ago and re-tenanting it with restaurants, constantly upgrading the mix, and going head-to-head against Tyson’s Galleria, is yet another example of Macerich pushing the envelope. I think their properties will meld well with some of Simon’s trophy centers.”

And it is the trophy assets that mall buyers are after right now.

According to Nomura Securities, mall REITs continued to respond to a shift in consumer shopping patterns by repositioning assets and disposing on non-core properties last year. Since the second quarter 2014 earnings season, Mall REITs have shed 26 assets.

“In the year ahead, we expect to see most of the REITs continuing to shed underperforming assets and further consolidation is possible,” Nomura analysts noted as a majority of REITs continue to emphasize ‘capital recycling’ in their messages to investors, selling underperforming assets and re-investing in higher quality centers with growth potential.

“While the mall REITs that own higher productivity assets appear to have largely completed pruning their portfolios and are becoming more acquisitive, we expect to see continued dispositions in the year ahead,” Nomura noted. “Many of the REITs have identified a set of non-core assets that are likely to be sold or disposed of over the next year. By and large, it appears that the buyers of weaker malls are private or regional operators.”

Last quarter, for example, Taubman Centers sold seven malls to Starwood Capital Group as part of its ongoing strategy to recycle capital. Starwood paid $1.403 billion for the portfolio. Taubman received net cash proceeds of $716 million, a portion of which it set aside to fund a tax deferred like-kind exchange under Section 1031 of the Internal Revenue Code.

Macerich, however, does not appear to be a willing seller of its portfolio or trophy assets. The company said it would review Simon’s proposal with its financial and legal advisors and advised its stockholders not to take any action at this time.

With few individual trophy assets coming to market, a rejection may not deter Simon. The dearth of available top quality malls was cited by Taubman following its recent sale to Starwood, when it announced after the sale that it couldn’t find suitable properties for an exchange that could meet its timing and investment requirements. The company opted instead to essentially invest in its own portfolio. This week the REIT increased its share buyback program by $250 million.

Simon Property Group's pursuit of The Macerich Co. makes sense, analysts at Citi Research said, and they expect Simon's current offer of $91 per share may not be its last.

"The price will likely have to move higher to consummate a deal, but given the low yield it gets increasingly tougher to argue deal accretion," Citi said.