GENERAL GROWTH PROPERTIES INC
Form 10-Q
November 10, 2008

**Table of Contents**

**UNITED STATES**
**SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**
**FORM 10-Q**

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the quarterly period ended September 30, 2008**

**or**

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
**For the transition period from ____________________ to ____________________**

**Commission file number 1-11656**

**GENERAL GROWTH PROPERTIES, INC.**
(Exact name of registrant as specified in its charter)

| Delaware | 42-1283895 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

110 N. Wacker Dr., Chicago, IL 60606
(Address of principal executive offices, including Zip Code)
(312) 960-5000
(Registrant s telephone number, including area code)
N /A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 (the Exchange Act ) during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

| Large accelerated filer þ | Accelerated filer o | Non-accelerated filer o (Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

The number of shares of Common Stock, $.01 par value, outstanding on November 10, 2008 was 268,314,510.

**GENERAL GROWTH PROPERTIES, INC.**
**INDEX**


| | PAGE NUMBER |
|---|---|
| **Part I FINANCIAL INFORMATION** | |
| Item 1: Consolidated Financial Statements (Unaudited) | |
| Consolidated Balance Sheets as of September 30, 2008 and December 31, 2007 | 3 |
| Consolidated Statements of Income and Comprehensive Income for the three and nine months ended September 30, 2008 and 2007 | 4 |
| Consolidated Statements of Cash Flows for the nine months ended September 30, 2008 and 2007 | 5 |
| Notes to Consolidated Financial Statements | 7 |
| Note 1: Organization | 7 |
| Note 2: Acquisitions/Dispositions and Intangibles | 12 |
| Note 3: Unconsolidated Real Estate Affiliates | 13 |
| Note 4: Mortgages, Notes and Loans Payable | 20 |
| Note 5: Income Taxes | 21 |
| Note 6: Stock-Based Compensation Plans | 22 |
| Note 7: Other Assets and Liabilities | 25 |
| Note 8: Commitments and Contingencies | 26 |
| Note 9: Recently Issued Accounting Pronouncements | 27 |
| Note 10: Segments | 29 |
| Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations | 33 |
| Liquidity and Capital Resources | 40 |
| Item 3: Quantitative and Qualitative Disclosures about Market Risk | 42 |
| Item 4: Controls and Procedures | 42 |
| **Part II OTHER INFORMATION** | |
| Item 1: Legal Proceedings | 43 |
| Item 1A: Risk Factors | 43 |
| Item 2: Unregistered Sales of Equity Securities and Use of Proceeds | 44 |
| Item 3: Defaults Upon Senior Securities | 44 |
| Item 4: Submission of Matters to a Vote of Security Holders | 44 |
| Item 5: Other Information | 44 |
| Item 6: Exhibits | 45 |
| SIGNATURE | 46 |
| EXHIBIT INDEX | 47 |

EX-31.1
EX-31.2
EX-32.1
EX-32.2
EX-99.1

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**
**CONSOLIDATED BALANCE SHEETS**
**(UNAUDITED)**

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (Dollars in thousands) | |
| **Assets:** | | |
| Investment in real estate: | | |
| Land | $ 3,307,747 | $ 3,310,634 |
| Buildings and equipment | 23,494,298 | 22,653,814 |
| Less accumulated depreciation | (4,076,450) | (3,605,199) |
| Developments in progress | 1,143,693 | 987,936 |
| Net property and equipment | 23,869,288 | 23,347,185 |
| Investment in and loans to/from Unconsolidated Real Estate Affiliates | 1,919,838 | 1,857,330 |
| Investment property and property held for development and sale | 1,809,667 | 1,639,372 |
| Net investment in real estate | 27,598,793 | 26,843,887 |
| Cash and cash equivalents | 139,175 | 99,534 |
| Accounts and notes receivable, net | 372,203 | 388,278 |
| Goodwill | 373,415 | 385,683 |
| Deferred expenses, net | 315,288 | 290,660 |
| Prepaid expenses and other assets | 863,253 | 806,277 |
| Total assets | $ 29,662,127 | $ 28,814,319 |
| **Liabilities and Stockholders Equity:** | | |
| Mortgages, notes and loans payable | $ 24,766,701 | $ 24,282,139 |
| Investment in and loans to/from Unconsolidated Real Estate Affiliates | 40,435 | 53,964 |
| Deferred tax liabilities | 864,041 | 860,435 |
| Accounts payable and accrued expenses | 1,655,813 | 1,688,241 |
| Total liabilities | 27,326,990 | 26,884,779 |
| Minority interests: | | |
| Preferred | 121,399 | 121,482 |
| Common | 398,853 | 351,362 |
| Total minority interests | 520,252 | 472,844 |
| Commitments and Contingencies | | |
| Preferred Stock: $100 par value; 5,000,000 shares authorized; none issued and outstanding | | |

| | | |
|---|---|---|
| Stockholders Equity: | | |
| Common stock: $.01 par value; 875,000,000 shares authorized, 269,695,257 shares issued as of September 30, 2008 and 245,704,746 shares issued as of December 31, 2007 | 2,697 | 2,457 |
| Additional paid-in capital | 3,320,657 | 2,601,296 |
| Retained earnings (accumulated deficit) | (1,451,768) | (1,087,080) |
| Accumulated other comprehensive income | 20,051 | 35,658 |
| Less common stock in treasury, at cost, 1,449,939 shares as of September 30, 2008 and 1,806,650 shares as of December 31, 2007 | (76,752) | (95,635) |
| Total stockholders equity | 1,814,885 | 1,456,696 |
| Total liabilities and stockholders equity | $ 29,662,127 | $ 28,814,319 |

The accompanying notes are an integral part of these consolidated financial statements.

3

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**
**CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME**
**(UNAUDITED)**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands, except for per share amounts) | | | |
| **Revenues:** | | | | |
| Minimum rents | $ 514,186 | $ 509,762 | $ 1,546,227 | $ 1,389,235 |
| Tenant recoveries | 231,548 | 231,395 | 694,727 | 626,253 |
| Overage rents | 14,563 | 16,122 | 38,973 | 42,578 |
| Land sales | 6,158 | 54,188 | 31,080 | 114,111 |
| Management and other fees | 21,561 | 26,484 | 63,718 | 80,404 |
| Other | 26,685 | 26,307 | 85,916 | 80,550 |
| Total revenues | 814,701 | 864,258 | 2,460,641 | 2,333,131 |
| **Expenses:** | | | | |
| Real estate taxes | 68,128 | 68,054 | 205,781 | 180,004 |
| Repairs and maintenance | 57,725 | 52,624 | 176,822 | 151,514 |
| Marketing | 10,425 | 12,237 | 31,477 | 35,530 |
| Other property operating costs | 116,329 | 114,418 | 332,047 | 310,062 |
| Land sales operations | 8,513 | 43,159 | 33,645 | 92,845 |
| Provision for doubtful accounts | 5,938 | 6,275 | 14,934 | 10,066 |
| Property management and other costs | 38,813 | 45,252 | 145,755 | 154,841 |
| General and administrative | 5,259 | 4,631 | 17,774 | 20,929 |
| Provisions for impairment | 55,514 | 629 | 56,123 | 2,630 |
| Depreciation and amortization | 190,386 | 189,436 | 565,888 | 527,844 |
| Total expenses | 557,030 | 536,715 | 1,580,246 | 1,486,265 |
| Operating income | 257,671 | 327,543 | 880,395 | 846,866 |
| Interest income | 950 | 2,027 | 2,957 | 7,004 |
| Interest expense | (324,195) | (310,868) | (956,532) | (854,764) |
| (Loss) income before income taxes, minority interest and equity in income (loss) of Unconsolidated Real Estate Affiliates | (65,574) | 18,702 | (73,180) | (894) |
| Benefit from (provision for) income taxes | 14,841 | (14,293) | (1,416) | 256,451 |
| Minority interest | 3,258 | (1,269) | (6,032) | (60,771) |
| Equity in income (loss) of Unconsolidated Real Estate Affiliates | 16,939 | (12,499) | 61,912 | 34,441 |
| (Loss) income from continuing operations | (30,536) | (9,359) | (18,716) | 229,227 |
| Discontinued operations, net of minority interest gains on dispositions | 15,121 | | 45,941 | |

| | | | | |
|---|---|---|---|---|
| Net (loss) income | $ (15,415) | $ (9,359) | $ 27,225 | $ 229,227 |
| | | | | |
| **Basic and Diluted (Loss) Earnings Per Share:** | | | | |
| Continuing operations | $ (0.11) | $ (0.04) | $ (0.07) | $ 0.94 |
| Discontinued operations | 0.05 | | 0.17 | |
| Total basic and diluted (loss) earnings per share | $ (0.06) | $ (0.04) | $ 0.10 | $ 0.94 |
| Dividends declared per share | 0.50 | 0.45 | 1.50 | 1.35 |
| **Comprehensive Income, Net:** | | | | |
| Net (loss) income | $ (15,415) | $ (9,359) | $ 27,225 | $ 229,227 |
| Other comprehensive income, net of minority interest: | | | | |
| Net unrealized losses on financial instruments | (2,217) | (351) | (1,471) | (1,433) |
| Accrued pension adjustment | (287) | 102 | (646) | 305 |
| Foreign currency translation | (29,390) | 9,879 | (13,382) | 22,222 |
| Unrealized gains (losses) on available-for-sale securities | 4 | 98 | (108) | 71 |
| Total other comprehensive (loss) income, net of minority interest | (31,890) | 9,728 | (15,607) | 21,165 |
| Comprehensive (loss) income, net | $ (47,305) | $ 369 | $ 11,618 | $ 250,392 |

The accompanying notes are an integral part of these consolidated financial statements.

4

**GENERAL GROWTH PROPERTIES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**(UNAUDITED)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2008 | 2007 |
| | (In thousands) | |
| **Cash Flows from Operating Activities:** | | |
| Net income | $ 27,225 | $ 229,227 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Minority interest | 6,032 | 60,771 |
| Equity in income of Unconsolidated Real Estate Affiliates | (61,912) | (34,441) |
| Provision for doubtful accounts | 14,934 | 10,066 |
| Distributions received from Unconsolidated Real Estate Affiliates | 54,807 | 82,753 |
| Depreciation | 530,177 | 502,421 |
| Amortization | 35,711 | 25,423 |
| Amortization of debt market rate adjustment and other non-cash interest expense | 10,607 | (11,373) |
| Gains on dispositions, net of minority interest | (45,941) | |
| Provisions for impairment | 56,123 | 2,630 |
| Participation expense pursuant to Contingent Stock Agreement | (528) | 25,944 |
| Land/residential development and acquisitions expenditures | (125,485) | (191,503) |
| Cost of land sales | 6,269 | 40,485 |
| Tax restructuring benefit | | (296,742) |
| Straight-line rent amortization | (33,156) | (26,649) |
| Amortization of intangibles other than in-place leases | (4,519) | (21,431) |
| Glendale Matter deposit | (67,054) | |
| Net changes: | | |
| Accounts and notes receivable | 34,121 | 5,438 |
| Prepaid expenses and other assets | (7,440) | 17,795 |
| Deferred expenses | (43,246) | (23,414) |
| Accounts payable and accrued expenses and deferred tax liabilities | 18,622 | (8,093) |
| Other, net | 2,799 | 24,562 |
| Net cash provided by operating activities | 408,146 | 413,869 |
| **Cash Flows from Investing Activities:** | | |
| Acquisition/development of real estate and property additions/improvements | (1,007,507) | (1,192,244) |
| Proceeds from sales of investment properties | 72,075 | 2,957 |
| Increase in investments in Unconsolidated Real Estate Affiliates | (194,230) | (324,131) |
| Distributions received from Unconsolidated Real Estate Affiliates in excess of income | 77,374 | 183,338 |
| Loans from (to) Unconsolidated Real Estate Affiliates, net | 30,715 | (138,330) |
| Decrease (increase) in restricted cash | 911 | (12,301) |
| Other, net | 4,524 | 8,601 |
| Net cash used in investing activities | (1,016,138) | (1,472,110) |

| | | |
|---|---|---|
| **Cash Flows from Financing Activities:** | | |
| Proceeds from issuance of mortgages, notes and loans payable | 2,695,716 | 3,131,800 |
| Principal payments on mortgages, notes and loans payable | (2,369,159) | (1,581,871) |
| Deferred financing costs | (40,819) | (28,452) |
| Cash distributions paid to common stockholders | (389,528) | (328,955) |
| Cash distributions paid to holders of Common Units | (78,061) | (70,919) |
| Cash distributions paid to holders of perpetual and convertible preferred units | (8,709) | (10,970) |
| Proceeds from issuance of common stock, including from common stock plans | 829,205 | 56,996 |
| Redemption of preferred minority interests | | (60,000) |
| Purchase of treasury stock | | (95,648) |
| Other, net | 8,988 | (2,585) |
| Net cash provided by financing activities | 647,633 | 1,009,396 |
| Net change in cash and cash equivalents | 39,641 | (48,845) |
| Cash and cash equivalents at beginning of period | 99,534 | 97,139 |
| Cash and cash equivalents at end of period | $ 139,175 | $ 48,294 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**
**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**
**(UNAUDITED)**

| | Nine Months Ended September 30, | |
|---|---|---|
| | **2008** | **2007** |
| | **(In thousands)** | |
| **Supplemental Disclosure of Cash Flow Information:** | | |
| Interest paid | $954,503 | $ 877,230 |
| Interest capitalized | 45,315 | 63,612 |
| Income taxes paid | 43,629 | 76,841 |
| **Non-Cash Transactions:** | | |
| Common stock issued in exchange for Operating Partnership Units | $ 4,511 | $ 7,695 |
| Common stock issued in exchange for convertible preferred units | 83 | 484 |
| Common stock issued pursuant to Contingent Stock Agreement | 15,533 | 36,669 |
| Change in accrued capital expenditures included in accounts payable and accrued expenses | 60,808 | 12,530 |
| Non-cash portion of the acquisition of The Palazzo in 2008 | 200,288 | |
| Assumption of debt by purchaser in conjunction with sale of office buildings in 2008 | 84,000 | |
| Acquisition of joint venture partner share of GGP/Homart Inc. in 2007: | | |
| Total assets | | 3,296,951 |
| Total liabilities | | 2,347,796 |

The accompanying notes are an integral part of these consolidated financial statements.

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

**NOTE 1 ORGANIZATION**

Readers of this Quarterly Report should refer to the Company s (as defined below) audited Consolidated Financial Statements for the year ended December 31, 2007 which are included in the Company s Annual Report on Form 10-K (as amended by Amendment No. 1 to such report filed on Form 10-K/A, the Annual Report ) for the fiscal year ended December 31, 2007 (Commission File No. 1-11656), as certain footnote disclosures which would substantially duplicate those contained in our Annual Report have been omitted from this report. Capitalized terms used, but not defined, in this Quarterly Report have the same meanings as in our Annual Report.

**General**

General Growth Properties, Inc. ( GGP ), a Delaware corporation, is a self-administered and self-managed real estate investment trust, referred to as a REIT. GGP was organized in 1986 and through its subsidiaries and affiliates operates, develops, acquires and manages retail and other rental properties, primarily shopping centers, which are located primarily throughout the United States. GGP also holds assets through its international Unconsolidated Real Estate Affiliates in Brazil, Turkey and Costa Rica in which, as of September 30, 2008, GGP has a net investment of $269.8 million. Additionally, GGP develops and sells land for residential, commercial and other uses primarily in large-scale, long-term master planned community projects in and around Columbia, Maryland; Summerlin, Nevada; and Houston, Texas. In these notes, the terms we, us and our refer to GGP and its subsidiaries (the Company ). In this report, we refer to our ownership interests in majority-owned or controlled properties as Consolidated Properties, to joint ventures in which we own a non-controlling interest as Unconsolidated Real Estate Affiliates and the properties owned by such joint ventures as the Unconsolidated Properties. Our Company Portfolio includes both our Consolidated Properties and our Unconsolidated Properties.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of GGP, our subsidiaries and joint ventures in which we have a controlling interest. For consolidated joint ventures, the non-controlling partner s share of operations (generally computed as the joint venture partner s ownership percentage) is included in Minority Interest. All significant intercompany balances and transactions have been eliminated.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods have been included. The results for the interim periods ended September 30, 2008 are not necessarily indicative of the results to be obtained for the full fiscal year.

**Liquidity**

The Company has $900 million of property secured debt and $58 million of corporate debt that is scheduled to mature by December 1, 2008. The Company is working with its syndicate of lenders to extend the November 28, 2008 maturity dates for its property secured debt (related to Fashion Show and The Shoppes at The Palazzo, both in Las Vegas, Nevada). In addition, we have undertaken a comprehensive examination of all the financial and strategic alternatives to generate capital from a variety of sources, including, but not limited to, both core and non-core asset sales, the sale of joint venture interests, a corporate level capital infusion, and/or strategic business combinations. Given the continued weakness of the retail and credit markets, there can be no assurance that we can obtain such extensions or refinance our existing debt or obtain the additional capital necessary to satisfy our short term cash needs on satisfactory terms. Even if we are successful in addressing these 2008 maturities, an additional $3.07 billion of property and corporate debt is scheduled to mature in 2009. In the event that we are unable to extend or refinance our debt or obtain additional capital on a timely basis and on acceptable terms, we will be required to take further steps to acquire the funds necessary to satisfy our short term cash needs, including seeking legal protection from our creditors. 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 accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America applicable to a going concern, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. Accordingly, our consolidated financial statements do not reflect any adjustments related to the recoverability of assets and satisfaction of liabilities that might be necessary should we be unable to continue as a

going concern.

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

**Revenue Recognition and Related Matters**

Minimum rent revenues are recognized on a straight-line basis over the terms of the related leases. Minimum rent revenues also include amounts collected from tenants to allow the termination of their leases prior to their scheduled termination dates and accretion related to above and below-market tenant leases on acquired properties. Termination income recognized was $4.4 million for the three months ended September 30, 2008, $29.4 million for the nine months ended September 30, 2008, $8.3 million for the three months ended September 30, 2007 and $13.6 million for the nine months ended September 30, 2007. Accretion related to above and below-market tenant leases was $3.2 million for the three months ended September 30, 2008, $11.9 million for the nine months ended September 30, 2008, $10.5 for the three months ended September 30, 2007 and $28.5 million for the nine months ended September 30, 2007.

Straight-line rent receivables, which represent the current net cumulative rents recognized prior to when billed and collectible as provided by the terms of the leases, of $233.5 million as of September 30, 2008 and $200.5 million as of December 31, 2007, are included in Accounts and notes receivable, net in our consolidated financial statements.

Percentage rent in lieu of fixed minimum rent received from tenants was $12.5 million for the three months ended September 30, 2008, $36.0 million for the nine months ended September 30, 2008, $11.1 million for the three months ended September 30, 2007 and $29.8 million for the nine months ended September 30, 2007, and is included in Minimum rents in our consolidated financial statements.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. For example, significant estimates and assumptions have been made with respect to useful lives of assets, capitalization of development and leasing costs, provision for income taxes, recoverable amounts of receivables and deferred taxes, initial valuations and related amortization periods of deferred costs and intangibles, particularly with respect to acquisitions, impairment of long-lived assets and goodwill, and cost ratios and completion percentages used for land sales. Actual results could differ from these and other estimates.

**Reclassifications**

Certain amounts in the 2007 Consolidated Financial Statements have been reclassified to conform to the current period presentation.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

**Earnings Per Share ( EPS )**

Information related to our EPS calculations is summarized as follows:

| | Three Months Ended September 30, 2008 | | 2007 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| | (In thousands) | | | |
| **Numerators:** | | | | |
| Loss from continuing operations | $ (30,536) | (30,536) | $ (9,359) | (9,359) |
| Discontinued operations, net of minority interest gains on dispositions | 15,121 | 15,121 | | |
| Net loss available to common stockholders | (15,415) | (15,415) | (9,359) | (9,359) |
| **Denominators:** | | | | |
| Weighted average number of common shares outstanding | 267,945 | 267,945 | 243,775 | 243,775 |

| | Nine Months Ended September 30, 2008 | | 2007 | |
|---|---|---|---|---|
| | Basic | Diluted | Basic | Diluted |
| | (In thousands) | | | |
| **Numerators:** | | | | |
| (Loss) income from continuing operations | $ (18,716) | (18,716) | $ 229,227 | $ 229,227 |
| Discontinued operations, net of minority interest gains on dispositions | 45,941 | 45,941 | | |
| Net income available to common stockholders | $ 27,225 | $ 27,225 | $ 229,227 | $ 229,227 |
| **Denominators:** | | | | |
| Weighted average number of common shares outstanding | 260,055 | 260,055 | 244,034 | 244,034 |
| Effect of dilutive securities stock options | | | | 606 |
| Weighted average number of common shares outstanding | 260,055 | 260,055 | 244,034 | 244,640 |

In March 2008, we sold 22,829,355 shares of GGP common stock to certain of our largest shareholders, including M.B. Capital Partners III (2,445,000 shares) and affiliates of FMR LLC (3,000,000 shares), at $36.00 per share, resulting in total net proceeds of $821.9 million. The proceeds from the sale of shares were used primarily to pay approximately $490 million of our variable-rate debt credit facilities and approximately $200 million of our Senior Bridge Facility (Note 4).

Diluted EPS excludes options where the exercise price was higher than the average market price of our common stock, and therefore would have an anti-dilutive effect, and options for which vesting requirements were not satisfied. Such options totaled 5,133,503 shares as of September 30, 2008, and 3,790,188 shares as of September 30, 2007. Outstanding Common Units have also been excluded from the diluted earnings per share calculation because including such Common Units would also require that the share of GGPLP income attributable to such Common Units be added back to net income therefore resulting in no effect on EPS. Finally, the exchangeable senior notes that were issued in April 2007 (Note 4) are also excluded from EPS because the conditions for exchange were not satisfied as of September 30, 2008 and 2007.

**Transactions With Affiliates**

Management and other fees primarily represent management and leasing fees, development fees, financing fees and fees for other ancillary services performed for the benefit of certain of the Unconsolidated Real Estate Affiliates and for properties owned by third parties. Fees earned from the Unconsolidated Properties totaled $19.0 million for the three months ended September 30, 2008, $56.3 million for the nine months ended September 30, 2008, $10.2 million for the three months ended September 30, 2007 and $60.9 million for the nine months ended September 30, 2007. Such fees are recognized as revenue when earned.

GENERAL GROWTH PROPERTIES, INC.

**Impairment**

*Operating properties and properties under development*

Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, ( SFAS 144 ) requires that if impairment indicators exist and the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value. We review our real estate assets, including investment land, land held for development and sale and developments in progress, for potential impairment indicators whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment indicators for our retail and other segment are assessed separately for each property and include, but are not limited to, significant decreases in real estate property net operating income and occupancy percentages. Impairment indicators for our Master Planned Communities segment are assessed separately for each community and include, but are not limited to, significant decreases in sales pace or average selling prices, significant increases in expected land development and construction costs or cancellation rates, and projected losses on expected future sales. Impairment indicators for pre-development costs, which are typically costs incurred during the beginning stages of a potential development, and developments in progress are assessed by project and include, but are not limited to, significant changes in projected completion dates, revenues or cash flows, development costs, market factors and sustainability of development projects. If an indicator of potential impairment exists, the asset is tested for recoverability by comparing its carrying value to the estimated future undiscounted operating cash flow. A real estate asset is considered to be impaired when its carrying value cannot be recovered through estimated future undiscounted cash flows. To the extent an impairment has occurred, the excess of the carrying value of the asset over its estimated fair value is expensed to operations.

We recorded an impairment charge of $7.8 million for the three months ended September 30, 2008 related to our Century Plaza (Birmingham, Alabama) operating property which was calculated using a projected sales price analysis, incorporating available market information including offers previously received from other sources.

We recorded an impairment charge of $40.3 million for the three months ended September 30, 2008 related to our residential development project, Nouvelle at Natick (Massachusetts), which was calculated using a discounted cash flow analysis (at a 12% discount rate) incorporating available market information and other management assumptions. Significant factors in the determination of the Nouvelle at Natick impairment charge were the reduced potential of future price increases and the likelihood that the period to complete unit sales will need to be extended.

We recorded impairment charges of $7.4 million for the three months ended September 30, 2008 and $8.0 million for the nine months ended September 30, 2008 related to the write down of various pre-development costs that were determined to be non-recoverable due to the related projects being terminated. We recorded similar impairment charges for pre-development projects in the amount of $0.6 million for the three months September 30, 2007 and $2.6 million for the nine months ended September 30, 2007.

No other impairments of our investment in real estate were recorded for three or nine months ended September 30, 2008 and 2007.

*Investment in Unconsolidated Real Estate Affiliates*

Per Accounting Principles Board ( APB ) Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock,* a series of operating losses of an investee or other factors may indicate that a decrease in value of our investment in the Unconsolidated Real Estate Affiliates has occurred which is other-than-temporary. The investment in each of the Unconsolidated Real Estate Affiliates is evaluated for recoverability and valuation declines that are other than temporary periodically and as deemed necessary. Accordingly, in addition to the property-specific impairment analysis that we perform on the investment properties owned by such joint ventures (as part of our investment property impairment process described above), we also considered the ownership and distribution preferences and limitations and rights to sell and repurchase of our ownership interests. No provisions for impairment of our investments in Unconsolidated Real Estate Affiliates were recorded for the three and nine months ended September 30, 2008 and 2007.

*Goodwill*

The excess of the cost of an acquired entity over the net of the amounts assigned to assets acquired (including identified intangible assets) and liabilities assumed is recorded as goodwill. Goodwill is therefore recognized and

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

allocated to specific properties. Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* ( SFAS 142 ), requires that goodwill should be tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset might be impaired. As of September 30, 2008, we performed an interim impairment test of goodwill as changes in current market and economic conditions during the third quarter of 2008 indicated an impairment might have occurred.

We deemed the following factors to have collectively constituted a potential impairment triggering event including the reporting of a significant loss in the third quarter of 2008, a softening U.S. economy, published reports of declines in property values, including those owned by GGP and a significant decrease in the fair value of the Company s outstanding equity and debt securities as of the end of the third quarter of 2008.

Since each individual rental property or each operating property is an operating segment and considered a reporting unit, we perform this test by first comparing the estimated fair value of each property with our book value of the property, including, if applicable, its allocated portion of aggregate goodwill. If the book value of a property, including its goodwill, exceeds its estimated fair value, the second step of the goodwill impairment test is performed to measure the amount of impairment loss, if any. In this second step, if the implied fair value of goodwill is less than the book value of goodwill, then an impairment charge would be recorded. Based on the first step of our goodwill impairment test, we were not required to perform the second step and therefore, no impairments of goodwill were recorded for the three or nine months ended September 30, 2008 and 2007.

As of September 30, 2008, our market capitalization was approximately $4.9 billion as compared to the net book value (including minority interest) of approximately $2.3 billion. Due to the tight credit markets, the recent and continuing decline in our market capitalization and in the fair value of our debt securities, the uncertain economic environment, as well as other uncertainties, we can provide no assurance that material impairment charges with respect to operating properties, Unconsolidated Real Estate Affiliates, construction in progress, property held for development and sale or goodwill will not occur in future periods. We will continue to monitor circumstances and events in future periods to determine whether additional impairments are warranted.

**Fair Value Measurements**

We adopted SFAS 157 (Note 9) as of January 1, 2008 for our financial assets and liabilities and such adoption did not change our valuation methods for such assets and liabilities. This adoption applies primarily to our derivative financial instruments and investments in marketable securities, which are assets and liabilities carried at fair value (primarily based on observable market data) on a recurring basis in our consolidated financial statements. We have determined that additional disclosures under SFAS 157 are not required as of September 30, 2008 as these assets and liabilities are not material to the overall financial position of the Company individually or in the aggregate.

**Minority Interests**

Under certain circumstances, the Common Units can be redeemed at the option of the holders for cash or, at our election, shares of GGP common stock on a one-for-one basis. The holders of the Common Units also share equally with our common stockholders on a per share basis in any distributions by the Operating Partnership on the basis that one Common Unit is equivalent to one share of GGP common stock. Upon receipt of a request for redemption by a holder of Common Units, the Company, as general partner of the Operating Partnership, has the option to pay the redemption price for such Common Units with shares of common stock of the Company, or in cash, on a one-for-one basis with a cash redemption price equivalent to the market price of one share of common stock of the Company at the time of redemption. All prior requests for redemption of Common Units have been fulfilled with shares of the Company s common stock and we currently expect to continue this practice. Notwithstanding this historical practice and current expectation to satisfy requests for redemption of Common Units in shares of the Company s common stock, the aggregate amount of cash that would have been paid to the holders of the outstanding Common Units as of September 30, 2008 if such holders had requested redemption of the Common Units as of September 30, 2008, and all such Common Units were redeemed for cash, would have been $728.9 million.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

**NOTE 2 ACQUISITIONS/DISPOSITIONS AND INTANGIBLES**

**GGP/Homart I Acquisition**

On July 6, 2007, we acquired the fifty percent interest owned by New York State Common Retirement Fund ( NYSCRF ) in the GGP/Homart I portfolio (the Homart I acquisition ). The aggregate purchase price was as follows:

| | | (In thousands) |
|---|---|---|
| Cash paid | $ | 949,090 |
| Debt assumed | | 1,055,057 |
| Acquisition and other costs, including deferred purchase price obligation | | 255,738 |
| Total purchase price | $ | 2,259,885 |

The following table summarizes the allocation of the purchase price to the net assets acquired at the date of the Homart I acquisition. These allocations were based on the relative fair values of the assets acquired and liabilities assumed.

| | | | (In thousands) |
|---|---|---|---|
| **Assets** | | | |
| Land | | $ | 250,265 |
| Buildings and equipment | | | 1,661,363 |
| In-place lease value | | | 44,309 |
| Developments in progress | | | 8,477 |
| Investment in and loans to/from Unconsolidated Real Estate Affiliates | | | 137,973 |
| Cash | | | 11,240 |
| Tenant accounts receivable | | | 5,156 |
| Prepaid expenses and other assets: | | | |
| Above-market tenant leases | 43,782 | | |
| Other | 178,021 | | |
| Total Prepaid expenses and other assets | | | 221,803 |
| Total assets | | | 2,340,586 |
| **Liabilities** | | | |
| Current liabilities | | | 31,396 |
| Debt mark-to-market adjustments | | | (12,883) |
| Below-market tenant leases | | | 62,188 |
| Total liabilities | | | 80,701 |
| **Total net assets acquired** | | $ | 2,259,885 |

**Dispositions**

During the three months ended September 30, 2008, we sold two office parks (located in Maryland) in two separate transactions for a total sales price of approximately $47 million, resulting in total gains of $15.1 million (net of

$2.9 million of minority interest). During the three months ended June 30, 2008, we sold (in two separate transactions) three office buildings (two located in Maryland and one located in Las Vegas) for a total sales price of approximately $98 million (including debt assumed of approximately $84 million), resulting in total gains of $30.8 million (net of $6.2 million of minority interest). All of the 2008 dispositions are included in Discontinued operations, net of minority interest gains on dispositions in our consolidated financial statements. For Federal income tax purposes, the two office buildings and one of the office parks located in Maryland were used as relinquished property in a like-kind exchange involving the acquisition of The Shoppes at The Palazzo (Note 8).



---

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

**Intangible Assets and Liabilities**

The following table summarizes our intangible assets and liabilities:

| | Gross Asset (Liability) | Accumulated (Amortization)/ Accretion | Net Carrying Amount |
|---|---|---|---|
| | | (In thousands) | |
| **As of September 30, 2008** | | | |
| Tenant leases: | | | |
| In-place value | $ 649,287 | $ (375,341) | $ 273,946 |
| Above-market | 126,454 | (69,742) | 56,712 |
| Below-market | (231,646) | 133,813 | (97,833) |
| Ground leases: | | | |
| Above-market | (16,968) | 1,833 | (15,135) |
| Below-market | 293,276 | (24,320) | 268,956 |
| Real estate tax stabilization agreement | 91,879 | (15,368) | 76,511 |
| **As of December 31, 2007** | | | |
| Tenant leases: | | | |
| In-place value | $ 679,329 | $ (361,172) | $ 318,157 |
| Above-market | 148,057 | (72,772) | 75,285 |
| Below-market | (324,088) | 196,447 | (127,641) |
| Ground leases: | | | |
| Above-market | (16,968) | 1,479 | (15,489) |
| Below-market | 293,435 | (19,590) | 273,845 |
| Real estate tax stabilization agreement | 91,879 | (12,425) | 79,454 |

The gross asset balances of the in-place value of tenant leases are included in Buildings and equipment in our Consolidated Balance Sheets. The above-market and below-market tenant and ground leases are included in Prepaid expenses and other assets and Accounts payable and accrued expenses (Note 7).

Amortization/accretion of these intangible assets and liabilities, and similar assets and liabilities from our Unconsolidated Real Estate Affiliates at our share, decreased our income (excluding the impact of minority interest and the provision for income taxes) by $18.4 million for the three months ended September 30, 2008, $52.5 million for the nine months ended September 30, 2008, $29.4 million for the three months ended September 30, 2007 and $84.6 million for the nine months ended September 30, 2007.

Future amortization, including our share of such items from Unconsolidated Real Estate Affiliates, is estimated to decrease income (excluding the impact of minority interest and the provision for income taxes) by approximately $68.6 million in 2008, $67.8 million in 2009, $60.1 million in 2010, $47.8 million in 2011 and $39.2 million in 2012.

**NOTE 3 UNCONSOLIDATED REAL ESTATE AFFILIATES**

The Unconsolidated Real Estate Affiliates include our non-controlling investments in real estate joint ventures. Generally, we share in the profits and losses, cash flows and other matters relating to our investments in Unconsolidated Real Estate Affiliates in accordance with our respective ownership percentages. We manage most of the properties owned by these joint ventures. As we have joint interest and control of these ventures with our venture partners and they have substantive participating rights in such ventures, we account for these joint ventures using the equity method. Some of the joint ventures have elected to be taxed as REITs.

In certain circumstances, we have debt obligations in excess of our pro rata share of the debt of our Unconsolidated Real Estate Affiliates ( Retained Debt ). This Retained Debt represents distributed debt proceeds of the Unconsolidated Real Estate Affiliates in excess of our pro rata share of the non-recourse mortgage indebtedness of such Unconsolidated Real Estate Affiliates. The proceeds of the Retained Debt which are distributed to us are included as a

reduction in our investment in Unconsolidated Real Estate Affiliates. In the event that the Unconsolidated Real Estate Affiliates do not generate sufficient cash flow to pay debt service, by agreement with our partners, our distributions may be reduced or we may be required to contribute funds in an amount equal to the

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

debt service on Retained Debt. Such Retained Debt totaled $161.5 million as of September 30, 2008 and $163.3 million as of December 31, 2007, and has been reflected as a reduction in our investment in Unconsolidated Real Estate Affiliates. In certain other circumstances, the Company, in connection with the debt obligations of certain Unconsolidated Real Estate Affiliates, has agreed to provide supplemental guarantees or master-lease commitments to provide to the debt holders additional credit-enhancement or security. We currently do not expect to be required to perform pursuant to any of such supplemental credit-enhancement provisions for our Unconsolidated Real Estate Affiliates.

The significant accounting policies used by the Unconsolidated Real Estate Affiliates are the same as ours.

**Condensed Combined Financial Information of Unconsolidated Real Estate Affiliates**

Following is summarized financial information for our Unconsolidated Real Estate Affiliates as of September 30, 2008 and December 31, 2007 and for the three and nine months ended September 30, 2008 and 2007.

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| **Condensed Combined Balance Sheets Unconsolidated Real Estate Affiliates** | | |
| **Assets:** | | |
| Land | $ 912,645 | $ 917,244 |
| Buildings and equipment | 7,499,978 | 7,136,053 |
| Less accumulated depreciation | (1,521,297) | (1,361,649) |
| Developments in progress | 701,179 | 645,156 |
| Net property and equipment | 7,592,505 | 7,336,804 |
| Investment property and property held for development and sale | 282,266 | 287,962 |
| Net investment in real estate | 7,874,771 | 7,624,766 |
| Cash and cash equivalents | 335,150 | 224,048 |
| Accounts and notes receivable, net | 155,172 | 133,747 |
| Deferred expenses, net | 169,575 | 166,201 |
| Prepaid expenses and other assets | 468,149 | 445,113 |
| Total assets | $ 9,002,817 | $ 8,593,875 |
| **Liabilities and Owners Equity:** | | |
| Mortgages, notes and loans payable | $ 6,523,151 | $ 6,215,426 |
| Accounts payable and accrued expenses | 684,324 | 715,519 |
| Owners equity | 1,795,342 | 1,662,930 |
| Total liabilities and owners equity | $ 9,002,817 | $ 8,593,875 |
| **Investment In and Loans To/From Unconsolidated Real Estate Affiliates, Net:** | | |
| Owners equity | $ 1,795,342 | $ 1,662,930 |
| Less joint venture partners equity | (891,304) | (853,459) |

| | | |
|---|---|---|
| Capital or basis differences and loans | 975,365 | 993,895 |
| Investment in and loans to/from Unconsolidated Real Estate Affiliates, net | $ 1,879,403 | $ 1,803,366 |

| | | |
|---|---|---|
| **Reconciliation Investment In and Loans To/From Unconsolidated Real Estate Affiliates** | | |
| Asset Investment in and loans to/from Unconsolidated Real Estate Affiliates | $ 1,919,838 | $ 1,857,330 |
| Liability Investment in and loans to/from Unconsolidated Real Estate Affiliates | (40,435) | (53,964) |
| Investment in and loans to/from Unconsolidated Real Estate Affiliates, net | $ 1,879,403 | $ 1,803,366 |

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | (In thousands) | |
| **Condensed Combined Statements of Income Unconsolidated Real Estate Affiliates** | | | | |
| **Revenues:** | | | | |
| Minimum rents | $ 200,858 | $ 185,000 | $ 588,845 | $ 627,313 |
| Tenant recoveries | 85,299 | 82,930 | 251,793 | 276,451 |
| Overage rents | 4,179 | 4,066 | 10,585 | 11,923 |
| Land sales | 25,036 | 63,879 | 102,978 | 132,492 |
| Management and other fees | 11,262 | 9,937 | 33,039 | 26,939 |
| Other | 25,610 | 34,389 | 88,206 | 126,607 |
| Total revenues | 352,244 | 380,201 | 1,075,446 | 1,201,725 |
| **Expenses:** | | | | |
| Real estate taxes | 21,675 | 23,779 | 70,701 | 83,841 |
| Repairs and maintenance | 18,647 | 18,748 | 57,433 | 62,646 |
| Marketing | 4,124 | 5,104 | 12,251 | 17,615 |
| Other property operating costs | 65,274 | 69,035 | 188,737 | 227,709 |
| Land sales operations | 16,890 | 35,064 | 62,217 | 71,184 |
| Provision for doubtful accounts | 2,590 | 1,498 | 4,219 | 4,106 |
| Property management and other costs | 25,338 | 21,631 | 66,320 | 69,654 |
| General and administrative | 7,207 | 78,906 | 18,565 | 82,023 |
| Provisions for impairment | 121 | 8 | 121 | 452 |
| Depreciation and amortization | 64,654 | 57,453 | 186,716 | 199,897 |
| Total expenses | 226,520 | 311,226 | 667,280 | 819,127 |
| Operating income | 125,724 | 68,975 | 408,166 | 382,598 |
| Interest income | 3,419 | 4,509 | 10,024 | 21,041 |
| Interest expense | (92,988) | (75,687) | (264,138) | (276,025) |
| Benefit from (provision for) income taxes | 7,881 | (984) | 4,549 | (7,742) |
| Minority interest | (206) | (607) | (649) | (913) |
| Equity in income of unconsolidated joint ventures | | 80 | | 3,389 |
| Income (loss) from continuing operations | 43,830 | (3,714) | 157,952 | 122,348 |
| Discontinued operations, including net loss on dispositions | | | | (5,277) |
| Net income (loss) | $ 43,830 | $ (3,714) | $ 157,952 | $ 117,071 |

| **Equity In Income (loss) of Unconsolidated Real Estate Affiliates:** | | | | |
|---|---|---|---|---|
| Net income (loss) | $ 43,830 | $ (3,714) | $ 157,952 | $ 117,071 |
| Joint venture partners share of (income) loss | (23,092) | 93 | (82,591) | (64,327) |
| Amortization of capital or basis differences | (3,420) | (8,376) | (12,364) | (15,382) |
| Elimination of Unconsolidated Real Estate Affiliates loan interest | (379) | (502) | (1,085) | (2,921) |
| Equity in income (loss) of Unconsolidated Real Estate Affiliates | $ 16,939 | $ (12,499) | $ 61,912 | $ 34,441 |

**Condensed Financial Information of Individually Significant Unconsolidated Real Estate Affiliates**

Following is summarized financial information for GGP/Homart II L.L.C. ( GGP/Homart II ), GGP-TRS L.L.C. ( GGP/Teachers ) and The Woodlands Land Development Holdings, L.P. ( The Woodlands Partnership ). We account for these joint ventures using the equity method because we have joint interest and control of these ventures with our venture partners and they have substantive participating rights in such ventures. For financial reporting purposes, we consider each of these joint ventures to be an individually significant Unconsolidated Real Estate Affiliate. Our investment in such affiliates varies from a strict ownership percentage due to capital or basis differences or loans and related amortization.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

| | GGP/Homart II | |
|---|---|---|
| | September 30, 2008 | December 31, 2007 |
| | (In thousands) | |
| **Assets:** | | |
| Land | $ 241,837 | $ 248,094 |
| Buildings and equipment | 2,768,236 | 2,654,780 |
| Less accumulated depreciation | (462,741) | (400,078) |
| Developments in progress | 68,634 | 108,078 |
| Net investment in real estate | 2,615,966 | 2,610,874 |
| Cash and cash equivalents | 33,637 | 30,851 |
| Accounts receivable, net | 39,951 | 40,319 |
| Deferred expenses, net | 83,695 | 76,297 |
| Prepaid expenses and other assets | 27,089 | 39,032 |
| Total assets | $ 2,800,338 | $ 2,797,373 |
| **Liabilities and Owners Equity:** | | |
| Mortgages, notes and loans payable | $ 2,275,930 | $ 2,110,947 |
| Accounts payable and accrued expenses | 204,658 | 237,688 |
| Owners equity | 319,750 | 448,738 |
| Total liabilities and owners equity | $ 2,800,338 | $ 2,797,373 |

| | GGP/Homart II Three Months Ended September 30, | | GGP/Homart II Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | (In thousands) | |
| **Revenues:** | | | | |
| Minimum rents | $ 61,183 | $ 55,855 | $ 181,849 | $ 162,466 |
| Tenant recoveries | 28,526 | 26,413 | 83,602 | 75,615 |
| Overage rents | 774 | 972 | 1,702 | 2,842 |
| Other | 2,376 | 2,122 | 6,861 | 6,087 |
| Total revenues | 92,859 | 85,362 | 274,014 | 247,010 |
| **Expenses:** | | | | |
| Real estate taxes | 8,482 | 7,667 | 24,894 | 22,633 |
| Repairs and maintenance | 6,265 | 5,290 | 19,144 | 15,101 |
| Marketing | 1,539 | 2,093 | 4,416 | 5,562 |
| Other property operating costs | 11,192 | 10,480 | 32,683 | 29,696 |

| | | | | |
|---|---|---|---|---|
| Provision for doubtful accounts | 686 | 409 | 978 | 1,075 |
| Property management and other costs | 5,761 | 5,159 | 17,085 | 15,421 |
| General and administrative | 1,098 | 78,848 | 2,969 | 81,605 |
| Provisions for impairment | | | | (17) |
| Depreciation and amortization | 22,916 | 20,302 | 67,994 | 59,368 |
| Total expenses | 57,939 | 130,248 | 170,163 | 230,444 |
| Operating income (loss) | 34,920 | (44,886) | 103,851 | 16,566 |
| Interest income | 1,858 | 2,009 | 5,743 | 6,190 |
| Interest expense | (33,284) | (25,216) | (97,321) | (80,668) |
| Income allocated to minority interests | (3) | | (8) | |
| Benefit from (provision for) income taxes | 7,718 | (76) | 5,948 | (1,610) |
| Net income (loss) | $ 11,209 | $ (68,169) | $ 18,213 | $ (59,522) |

**GENERAL GROWTH PROPERTIES, INC.**

In February, 2004, Caruso Affiliated Holdings, LLC commenced a lawsuit (the Glendale Matter ) involving GGP and GGP/Homart II (collectively, the defendants ) in the Los Angeles Superior Court (the Court ) alleging violations of the California antitrust and unfair competition laws and tortious interference with prospective economic advantage. After the jury trial concluded in the fall of 2007, the Court entered judgment against defendants in the amount of $74.2 million in compensatory damages, $15.0 million in punitive damages, and $0.2 million in court costs (the Judgment Amount ). Post-judgment interest began accruing on December 21, 2007 at the statutory rate of 10%. Defendants appealed the judgment and posted an appellate bond in April 2008 for $134.1 million, which is equal to 150% of the Judgment Amount. Additionally, in April 2008, GGPLP supplied cash as collateral to secure the appellate bond in the amount equal to 50% of the total bond amount or $67.1 million (Note 7).

For financial statement purposes, an accrual of the compensatory damages in the amount of $74.2 million was recorded by GGP/Homart II in the three and nine months ended September 30, 2007 within general and administrative expenses. The Company s 50% share of this amount was reflected in Equity in income (loss) of Unconsolidated Real Estate Affiliates in our Consolidated Statements of Income and Comprehensive Income in the three and nine months ended September 30, 2007. No estimate of the amount of punitive damages was recorded for the three and nine months ended September 30, 2007. Judgment of compensatory damages in the amount of approximately $74.2 million and punitive damages in the amount of $15 million were entered against the defendants in December 2007.

The Judgment Amount and the related post-judgment interest have been recorded in all applicable periods by GGP/Homart II. However, the GGP/Homart II Operating Agreement gives the non-managing member of GGP/Homart II rights to indemnification from the Company under certain circumstances. At this time, we are not aware of any formal assertion of those rights. If these rights are asserted and the indemnity is found to be applicable and enforceable, the Company may have the obligation to pay the Judgment Amount. In such event, management of the Company has determined that the Company would pay directly, or reimburse GGP/Homart II, for 100% of any payments and costs. Accordingly, since the fourth quarter of 2007 the Company has reflected, as provision for litigation and in other general and administrative costs and interest expense, as applicable, 100% of the judgment and certain related costs, rather than reflecting such 50% share of such costs in its equity in earnings of GGP/Homart II as originally recorded in the third quarter of 2007.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

| | GGP/Teachers | |
|---|---|---|
| | September 30, 2008 | December 31, 2007 |
| | (In thousands) | |
| **Assets:** | | |
| Land | $ 177,413 | $ 177,356 |
| Buildings and equipment | 1,072,142 | 1,039,444 |
| Less accumulated depreciation | (136,834) | (112,998) |
| Developments in progress | 53,845 | 65,135 |
| Net investment in real estate | 1,166,566 | 1,168,937 |
| Cash and cash equivalents | 10,066 | 20,423 |
| Accounts receivable, net | 14,963 | 13,055 |
| Deferred expenses, net | 20,276 | 21,242 |
| Prepaid expenses and other assets | 9,912 | 11,138 |
| Total assets | $ 1,221,783 | $ 1,234,795 |
| **Liabilities and Owners Equity:** | | |
| Mortgages, notes and loans payable | $ 1,023,152 | $ 1,029,788 |
| Accounts payable and accrued expenses | 52,229 | 92,993 |
| Owners equity | 146,402 | 112,014 |
| Total liabilities and owners equity | $ 1,221,783 | $ 1,234,795 |

| | GGP/Teachers Three Months Ended September 30, | | GGP/Teachers Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | (In thousands) | |
| **Revenues:** | | | | |
| Minimum rents | $ 29,008 | $ 27,192 | $ 86,441 | $ 81,571 |
| Tenant recoveries | 12,869 | 11,429 | 37,662 | 33,971 |
| Overage rents | 843 | 1,071 | 2,157 | 1,939 |
| Other | 606 | 529 | 1,706 | 1,616 |
| Total revenues | 43,326 | 40,221 | 127,966 | 119,097 |
| **Expenses:** | | | | |
| Real estate taxes | 3,417 | 2,685 | 9,173 | 8,007 |
| Repairs and maintenance | 2,268 | 2,202 | 7,466 | 6,456 |
| Marketing | 595 | 867 | 1,877 | 2,709 |
| Other property operating costs | 5,347 | 4,951 | 15,546 | 14,484 |
| Provision for doubtful accounts | 524 | 386 | 687 | 792 |

| | | | | |
|---|---|---|---|---|
| Property management and other costs | 2,307 | 2,262 | 7,015 | 6,790 |
| General and administrative | 99 | 35 | 205 | 144 |
| Provisions for impairment | 103 | | 103 | 18 |
| Depreciation and amortization | 8,982 | 6,946 | 26,082 | 21,163 |
| Total expenses | 23,642 | 20,334 | 68,154 | 60,563 |
| Operating income | 19,684 | 19,887 | 59,812 | 58,534 |
| Interest income | 52 | 145 | 221 | 576 |
| Interest expense | (13,982) | (11,676) | (41,643) | (34,982) |
| Benefit from (provision for) income taxes | 28 | (27) | (110) | (175) |
| Net income | $ 5,782 | $ 8,329 | $ 18,280 | $ 23,953 |

**GENERAL GROWTH PROPERTIES, INC.**

| | The Woodlands Partnership | |
|---|---|---|
| | September 30, 2008 | December 31, 2007 |
| | (In thousands) | |
| **Assets:** | | |
| Land | $ 15,231 | $ 14,756 |
| Buildings and equipment | 94,466 | 48,201 |
| Less accumulated depreciation | (12,563) | (10,638) |
| Developments in progress | 68,814 | 52,515 |
| Investment property and property held for development and sale | 282,266 | 287,962 |
| Net investment in real estate | 448,214 | 392,796 |
| Cash and cash equivalents | 14,388 | 27,359 |
| Deferred expenses, net | 1,852 | 2,044 |
| Prepaid expenses and other assets | 91,174 | 85,331 |
| Total assets | $ 555,628 | $ 507,530 |
| **Liabilities and Owners Equity:** | | |
| Mortgages, notes and loans payable | $ 329,737 | $ 286,765 |
| Accounts payable and accrued expenses | 51,827 | 75,549 |
| Owners equity | 174,064 | 145,216 |
| Total liabilities and owners equity | $ 555,628 | $ 507,530 |

| | The Woodlands Partnership Three Months Ended September 30, | | The Woodlands Partnership Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2008 | 2007 | 2008 | 2007 |
| | (In thousands) | | (In thousands) | |
| **Revenues:** | | | | |
| Minimum rents | $ 1,504 | $ 129 | $ 2,640 | $ 580 |
| Land sales | 25,036 | 63,879 | 102,978 | 132,492 |
| Other | 1,882 | 8,004 | 7,491 | 24,546 |
| Total revenues | 28,422 | 72,012 | 113,109 | 157,618 |
| **Expenses:** | | | | |
| Real estate taxes | 254 | 3 | 661 | 107 |
| Repairs and maintenance | 224 | 37 | 467 | 222 |
| Other property operating costs | 4,600 | 8,959 | 13,969 | 30,638 |
| Land sales operations | 16,890 | 35,064 | 62,217 | 71,184 |
| Depreciation and amortization | 622 | 967 | 1,925 | 3,014 |

| | | | | |
|---|---|---|---|---|
| Total expenses | 22,590 | 45,030 | 79,239 | 105,165 |
| Operating income | 5,832 | 26,982 | 33,870 | 52,453 |
| Interest income | 199 | 174 | 586 | 414 |
| Interest expense | (1,681) | (2,660) | (4,447) | (6,569) |
| Provision for income taxes | (193) | (524) | (706) | (914) |
| Income from continuing operations | 4,157 | 23,972 | 29,303 | 45,384 |
| Discontinued operations, including net loss on dispositions | | | | (5,276) |
| Net income | $ 4,157 | $ 23,972 | $ 29,303 | $ 40,108 |

19

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

**NOTE 4 MORTGAGES, NOTES AND LOANS PAYABLE**

Mortgages, notes and loans payable are summarized as follows:

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| **Fixed-rate debt:** | | |
| Collateralized mortgages, notes and loans payable | $ 16,689,333 | $ 16,943,760 |
| Corporate and other unsecured term loans | 3,861,231 | 3,895,922 |
| Total fixed-rate debt | 20,550,564 | 20,839,682 |
| **Variable-rate debt:** | | |
| Collateralized mortgages, notes and loans payable | 1,432,437 | 819,607 |
| Credit facilities | 590,000 | 429,150 |
| Corporate and other unsecured term loans | 2,193,700 | 2,193,700 |
| Total variable-rate debt* | 4,216,137 | 3,442,457 |
| Total mortgages, notes and loans payable | $ 24,766,701 | $ 24,282,139 |

* See Note 1 Liquidity regarding the impact of 2008 and 2009 scheduled maturities.

The weighted-average effective annual interest rate (which includes both the effects of swaps and deferred finance costs) on our mortgages, notes and loans payable was 5.48% at September 30, 2008 and 5.55% at December 31, 2007. Our mortgages, notes and loans payable have various maturities through 2095. The weighted-average remaining term of our mortgages, notes and loans payable was 3.06 years as of September 30, 2008. At September 30, 2008 the weighted average interest rate on the remaining corporate unsecured fixed and variable rate debt and the revolving credit facility was 4.65%.

The Company, pursuant to either debt obligations assumed in the acquisition of the Rouse Company in 2004 or due to subsequent property or portfolio borrowing, is required to comply with certain customary financial performance covenants and affirmative representations and warranties including, but not limited to, stipulations relating to leverage, net equity, maintenance of our REIT status, maintenance of our New York Stock Exchange listing, cross-defaults to certain other indebtedness and interest or fixed charge coverage ratios. We are not aware of any instances of non-compliance with these covenants as of September 30, 2008.

**Secured Portfolio Facility**

In July 2008, certain of our subsidiaries entered into a loan agreement which provides for a secured term loan of up to $1.75 billion (Secured Portfolio Facility). As of September 30, 2008, we have received advances of $1.51 billion

under such facility that are collateralized by first mortgages on 24 properties. Although additional advances of up to $240.0 million may be made until December 31, 2008, subject to participation by additional lenders and certain other conditions, we currently do not expect such advances to be made. The Secured Portfolio Facility has an initial term of three years with two one-year extension options, which are subject to certain conditions. The interest rate payable on advances under the Secured Portfolio Facility will be, at our option, (i) 1.25% plus the higher of (A) the federal funds rate plus 0.5% or (B) the prime rate, or (ii) LIBOR plus 2.25%. The Secured Portfolio Facility requires that the interest rate payable on a portion of the advances under the facility be hedged. As a result of these hedging requirements, we entered into interest rate swap transactions totaling $1.08 billion, which results in a weighted average fixed rate of 5.67% for the first two years of the initial term (without giving effect to the amortization of the fees and costs associated with the Secured Portfolio Facility). Subject to certain conditions, interest under the Secured Portfolio Facility is payable monthly in arrears and no principal payments are due until the initial maturity date of July 11, 2011. The Company and certain of its subsidiaries have agreed to provide a repayment guarantee of 50% of the outstanding obligations under the Secured Portfolio Facility, or approximately $755 million at September 30, 2008. During the term of the Secured Portfolio Facility, we are subject to customary affirmative and negative covenants and events of default. The proceeds from advances under the Secured Portfolio Facility have been used to repay debt maturing in 2008 and for general corporate purposes.

**Senior Bridge Facility**

On July 6, 2007, we closed on the Senior Bridge Facility that was used to partially fund the Homart I acquisition (Note 2). The Senior Bridge Facility had an outstanding balance of approximately $722 million at December 31, 2007 and was paid in full in July 2008 with the proceeds from the Secured Portfolio Facility (see above).

GENERAL GROWTH PROPERTIES, INC.

**Exchangeable Senior Notes**

In April 2007, GGPLP sold $1.55 billion aggregate principal amount of 3.98% Exchangeable Senior Notes (the Notes ) pursuant to Rule 144A under the Securities Act of 1933. Interest on the Notes is payable semi-annually in arrears on April 15 and October 15 of each year, beginning October 15, 2007. The Notes will mature on April 15, 2027 unless previously redeemed by GGPLP, repurchased by GGPLP or exchanged in accordance with their terms prior to such date. Prior to April 15, 2012, we will not have the right to redeem the Notes, except to preserve our status as a REIT. On or after April 15, 2012, we may redeem for cash all or part of the Notes at any time, at 100% of the principal amount of the Notes, plus accrued and unpaid interest, if any, to the redemption date. On each of April 15, 2012, April 15, 2017 and April 15, 2022, holders of the Notes may require us to repurchase the Notes, in whole or in part, for cash equal to 100% of the principal amount of Notes to be repurchased, plus accrued and unpaid interest.

The Notes are exchangeable for GGP common stock or a combination of cash and common stock, at our option, upon the satisfaction of certain conditions, including conditions relating to the market price of our common stock, the trading price of the Notes, the occurrence of certain corporate events and transactions, a call for redemption of the Notes and any failure by us to maintain a listing of our common stock on a national securities exchange. The exchange rate for each $1,000 principal amount of the Notes is 11.27 shares of GGP common stock, which is subject to adjustment under certain circumstances. We currently intend to settle the principal amount of the Notes in cash and any premium in cash, shares of our common stock or a combination of both. See Note 9 for information regarding the expected impact on our comparative consolidated financial statements to be issued in 2009 as the result of a FASB staff position issued in May 2008 relating to certain convertible debt instruments.

**Letters of Credit and Surety Bonds**

We had outstanding letters of credit and surety bonds of $303.1 million as of September 30, 2008. These letters of credit and bonds were issued primarily in connection with the appellate bond described in Note 3, insurance requirements, special real estate assessments and construction obligations.

**NOTE 5 INCOME TAXES**

We elected to be taxed as a real estate investment ( REIT ) trust under sections 856-860 of the Code, commencing with our taxable year beginning January 1, 1993. To qualify as a REIT, we must meet a number of organizational and operational requirements, including asset and income tests and requirements to distribute at least 90% of our ordinary taxable income and to distribute to stockholders or pay tax on 100% of capital gains.

We also have subsidiaries which we have elected to be treated as taxable real estate investment trust subsidiaries and which are therefore subject to federal and state income taxes.

Unrecognized tax benefits recorded pursuant to FIN 48 were $116.1 million and $127.1 million as of September 30, 2008 and December 31, 2007, excluding interest, of which $38.8 million would impact our effective tax rate. Accrued interest related to these unrecognized tax benefits amounted to $22.8 million as of September 30, 2008 and $19.1 million as of December 31, 2007. We recognized interest expense related to the unrecognized tax benefits of $2.7 million for the three months ended September 30, 2008, $7.5 million for the nine months ended September 30, 2008, $2.5 million for the three months ended September 30, 2007 and $8.7 million for the nine months ended September 30, 2007.

Due to the expiration of the statute of limitations in the three and nine months ended September 30, 2008 with respect to certain entities, we recognized previously unrecognized tax benefits, excluding accrued interest of $14.5 million; of which $12.3 million decreased goodwill and $2.2 million reduced income tax expense. The recognition of the previously unrecognized tax benefits resulted in the reduction of $3.8 million in interest expense accrued related to these amounts.

During the three and nine months ended September 30, 2007, we recognized previously unrecognized tax benefits, excluding accrued interest, of $20.0 million; of which $14.8 million decreased goodwill and $5.2 million reduced income tax expense. The recognition of the previously unrecognized tax benefits resulted in the reduction of $4.2 million in interest expense accrued and $0.4 million reduction in goodwill related to these amounts.

Table of Contents

GENERAL GROWTH PROPERTIES, INC.

Generally, we are currently open to audit under the statute of limitations by the Internal Revenue Service for the years ending December 31, 2005 through 2007 and are open to audit by state taxing authorities for years ending December 31, 2004 through 2007. Several of our taxable REIT subsidiaries are under examination by the Internal Revenue Service for the years 2001 through 2005. We are unable to determine when these audits will be resolved, however it is reasonable to expect that this will occur within the next twelve months.

Based on our assessment of the expected outcome of these remaining examinations or examinations that may commence, or as a result of the expiration of the statute of limitations for specific jurisdictions, it is reasonably possible that the related unrecognized tax benefits, excluding accrued interest, for tax positions taken regarding previously filed tax returns will materially change from those recorded at September 30, 2008. A material change in unrecognized tax benefits could have a material effect on our statements of income and comprehensive income. As of September 30, 2008, there are $108.6 million of unrecognized tax benefits, excluding accrued interest, which due to the reasons above, could significantly increase or decrease during the next twelve months.

Effective March 31, 2007, through a series of transactions, a private REIT owned by GGPLP was contributed to TRCLP and one of our TRS entities became a qualified REIT subsidiary of that private REIT. This transaction resulted in the recognition of an approximate $300 million income tax benefit in the first quarter of 2007 related to the properties now owned by that private REIT.

During 2008, we identified an issue related to the REIT qualification of one of our subsidiaries and we have received a closing agreement from the Internal Revenue Service. We expect to be able to conclude this issue at minimal cost without affecting our, or the subsidiary s, continued qualification as a REIT.

**NOTE 6 STOCK-BASED COMPENSATION PLANS**

**Incentive Stock Plans**

The following tables summarize stock option activity for the 2003 Incentive Stock Plan (the 2003 Incentive Plan ) as of and for the nine months ended September 30, 2008 and 2007.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Stock options outstanding at January 1 | 3,053,000 | $ 51.21 | 3,167,348 | $ 38.41 |
| Granted | | | 1,205,000 | 65.81 |
| Exercised | (23,000) | 15.24 | (1,318,748) | 33.81 |
| Exchanged for restricted stock | | | | |
| Forfeited | | | | |
| Expired | | | | |
| Stock options outstanding at September 30 | 3,030,000 | $ 51.48 | 3,053,600 | $ 51.20 |

**GENERAL GROWTH PROPERTIES, INC.**

| | Stock Options Outstanding | | | Stock Options Exercisable | | |
|---|---|---|---|---|---|---|
| Range of Exercise Prices | Shares | Weighted Average Remaining Contractual Term (in years) | Weighted Average Exercise Price | Shares | Weighted Average Remaining Contractual Term (in years) | Weighted Average Exercise Price |
| $0 $6.5810 | | | $ | | | $ |
| $6.5811 $13.1620 | 4,500 | 1.6 | 9.99 | 4,500 | 1.6 | 9.99 |
| $13.1621 $19.7430 | 50,000 | 3.8 | 15.49 | 50,000 | 3.8 | 15.49 |
| $19.7431 $26.3240 | | | | | | |
| $26.3241 $32.9050 | 197,000 | 0.3 | 30.94 | 197,000 | 0.3 | 30.94 |
| $32.9051 $39.4860 | 571,000 | 1.4 | 35.71 | 451,000 | 1.4 | 35.62 |
| $39.4861 $46.0670 | 50,000 | 2.0 | 44.59 | 20,000 | 2.0 | 44.59 |
| $46.0671 $52.6480 | 952,500 | 2.5 | 49.52 | 652,500 | 2.5 | 49.83 |
| $52.6481 $59.2290 | | | | | | |
| $59.2291 $65.8100 | 1,205,000 | 3.4 | 65.81 | 602,000 | 3.4 | 65.81 |
| Total | 3,030,000 | 2.2 | $ 51.48 | 1,977,000 | 2.2 | $ 48.56 |
| Intrinsic value (in thousands) | $ 23 | | | $ 23 | | |

The intrinsic value of outstanding and exercisable stock options as of September 30, 2008 represents the excess of our closing stock price ($15.10) on that date over the weighted average exercise price multiplied by the applicable number of shares that may be acquired upon exercise of stock options. The intrinsic value of exercised stock options represents the excess of our stock price, at the time the option was exercised, over the exercise price. The intrinsic value was $0.6 million for options exercised during the nine months ended September 30, 2008 and $39.3 million for options exercised during the nine months ended September 30, 2007.

The weighted-average fair value of stock options as of the grant date was $11.07 for stock options granted during the nine months ended September 30, 2007. There were no stock options granted during the nine months ended September 30, 2008.

Stock options generally vest 20% at the time of the grant and in 20% annual increments thereafter. In February 2007, however, in lieu of awarding options similar in size to prior years to two of our senior executives, the Compensation Committee of our Board of Directors accelerated the vesting of options held by these executives so that all such options became immediately vested and exercisable. As a result, the vesting of 705,000 options was accelerated and compensation expense of $4.1 million which would have been recognized in 2007 through 2010 was recognized in the first quarter of 2007. The 2003 Incentive Plan provides for the issuance of 9,000,000 shares, of which 5,555,232 shares (4,878,500 stock options and 676,732 restricted shares) have been granted as of September 30, 2008, subject to certain customary adjustments to prevent dilution.

**Threshold-Vesting Stock Options**

Under the 1998 Incentive Stock Plan (the 1998 Incentive Plan ), stock incentive awards to employees in the form of threshold-vesting stock options ( TSOs ) have been granted. The exercise price of the TSO is the Current Market Price ( CMP ) as defined in the 1998 Incentive Plan of our common stock on the date the TSO is granted. In order for the TSOs to vest, our common stock must achieve and sustain the applicable threshold price for at least 20 consecutive trading days at any time during the five years following the date of grant. Participating employees must remain employed until vesting occurs in order to exercise the options. The threshold price is determined by multiplying the

CMP on the date of grant by an Estimated Annual Growth Rate (currently 7%) and compounding the product over a five-year period. TSOs granted in 2004 and thereafter must be exercised within 30 days of the vesting date. TSOs granted prior to 2004, all of which have vested, have a term of up to 10 years. Under the 1998 Incentive Plan, 8,163,995 options have been granted as of September 30, 2008, subject to certain customary adjustments to prevent dilution.

The 1998 Incentive Plan will terminate December 31, 2008. No TSOs have been issued in 2008 and no further awards are expected to be made under this plan.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

The following table summarizes TSO activity as of September 30, 2008 by grant year.

| | TSO Grant Year | |
|---|---|---|
| | **2007** | **2006** |
| TSOs outstanding at January 1, 2008 | 1,313,890 | 1,235,568 |
| Forfeited (1) | (100,094) | (94,361) |
| Vested and exercised | | |
| TSOs outstanding at September 30, 2008 (2) | 1,213,796 | 1,141,207 |
| Intrinsic value (3) | $ | $ |
| Intrinsic value options exercised | | |
| Fair value options exercised | | |
| Cash received options exercised | | |
| Exercise price (4) | $ 65.81 | $ 50.47 |
| Threshold price | 92.30 | 70.79 |
| Fair value of options on grant date | 9.54 | 6.51 |
| Remaining contractual term (in years) | 3.4 | 2.4 |

(1) No TSO expirations for years presented.

(2) TSOs outstanding at September 30, 2008 for the years 2005 and prior were 127,071.

(3) Intrinsic value is not presented if result is a negative number.

(4) A weighted average exercise price is not applicable as there is only one grant date and issuance per year.

The Company has a $200 million per fiscal year common stock repurchase program which gives us the ability to acquire some or all of the shares of common stock to be issued upon the exercise of the TSOs.

**Restricted Stock**

Pursuant to the 2003 Stock Incentive Plan, we make restricted stock grants to certain employees and non-employee directors. The vesting terms of these grants are specific to the individual grant. The vesting terms vary in that a portion of the shares vest either immediately or on the first anniversary and the remainder vest in equal annual amounts over the next two to five years. Participating employees must remain employed for vesting to occur (subject to certain exceptions in the case of retirement). Shares that do not vest are forfeited. Dividends are paid on stock subject to restrictions and are not returnable, even if the related stock does not ultimately vest. The following table summarizes restricted stock activity for the respective grant years as of and for the nine months ended September 30, 2008.

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Shares | Weighted Average Grant Date Fair Value | Shares | Weighted Average Grant Date Fair Value |
| Nonvested restricted stock grants outstanding as of January 1 | 136,498 | $ 59.75 | 72,666 | $ 47.62 |
| Granted | 360,232 | 35.69 | 96,500 | 65.29 |
| Vested | (53,164) | 54.24 | (32,670) | 49.11 |
| Canceled | (13,372) | 35.65 | | |
| Nonvested restricted stock grants outstanding as of September 30 | 430,194 | $ 41.03 | 136,496 | $ 59.75 |

The weighted average remaining contractual term (in years) of nonvested awards as of September 30, 2008 was 3.3 years.

The total fair value of restricted stock grants which vested during the nine months ended September 30, 2008 and during the nine months ended September 30, 2007 was $2.0 million in each period.

GENERAL GROWTH PROPERTIES, INC.

**Other Required Disclosures**

Historical data, such as the past performance of our common stock and the length of service by employees, is used to estimate expected life of the stock options, TSOs and our restricted stock and represents the period of time the options or grants are expected to be outstanding. The weighted average estimated value of stock options and TSOs granted during the nine months ended September 30, 2007 were based on the following assumptions (there were no stock options or TSOs granted for the nine months ended September 30, 2008):

| | 2007 |
|---|---|
| Risk-free interest rate | 4.7% |
| Dividend yield | 4.0% |
| Expected volatility | 24.72 |
| Expected life (in years) | 5 |

Compensation expense related to the Incentive Stock Plans, TSOs and restricted stock was $0.3 million for the three months ended September 30, 2008, $5.3 million for the nine months ended September 30, 2008, $3.9 million for the three months ended September 30, 2007 and $17.6 million for the nine months ended September 30, 2007.

As of September 30, 2008, total compensation expense which had not yet been recognized related to nonvested options, TSOs and restricted stock grants was $29.5 million. Of this total, $2.9 million is expected to be recognized in the remaining months of 2008, $10.4 million in 2009, $9.1 million in 2010, $6.2 million in 2011 and $0.9 million in 2012. These amounts may be impacted by future grants, changes in forfeiture estimates or vesting terms, actual forfeiture rates which differ from estimated forfeitures and/or timing of TSO vesting.

**NOTE 7 OTHER ASSETS AND LIABILITIES**

The following table summarizes the significant components of Prepaid expenses and other assets.

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Below-market ground leases | $ 268,956 | $ 273,845 |
| Receivables finance leases and bonds | 112,460 | 114,979 |
| Prepaid expenses | 80,931 | 56,540 |
| Real estate tax stabilization agreement | 76,511 | 79,454 |
| Deposit on Glendale Matter being appealed | 67,054 | |
| Security and escrow deposits | 61,201 | 83,638 |
| Above-market tenant leases | 56,712 | 75,285 |
| Special Improvement District receivable | 56,220 | 58,200 |
| Deferred income tax | 47,124 | 24,088 |
| Funded defined contribution plan assets | 9,523 | 14,616 |
| Other | 26,561 | 25,632 |
| | $ 863,253 | $ 806,277 |

**GENERAL GROWTH PROPERTIES, INC.**

The following table summarizes the significant components of Accounts payable and accrued expenses.

| | September 30, 2008 | December 31, 2007 |
|---|---|---|
| | (In thousands) | |
| Construction payable | $ 266,313 | $ 206,044 |
| Accounts payable and accrued expenses | 265,283 | 302,719 |
| Additional purchase price for The Palazzo (Note 8) | 195,702 | |
| Accrued interest | 158,713 | 122,406 |
| FIN 48 liability | 138,858 | 146,201 |
| Accrued real estate taxes | 116,179 | 84,327 |
| Deferred gains/income | 99,181 | 79,479 |
| Below-market tenant leases | 97,833 | 127,641 |
| Hughes participation payable | 69,948 | 86,008 |
| Accrued Payroll and other employee liabilities | 64,499 | 71,191 |
| Tenant and other deposits | 30,888 | 28,212 |
| FIN 47 liability | 23,061 | 14,321 |
| Above-market ground leases | 15,135 | 15,489 |
| Insurance reserve | 14,570 | 19,407 |
| Capital lease obligations | 13,947 | 14,390 |
| Funded defined contribution plan liabilities | 9,523 | 14,616 |
| Oakwood Center insurance settlement advance payments (Note 8) | 8,750 | |
| Homart I purchase price obligation* | | 254,000 |
| Other | 67,430 | 101,790 |
| Total accounts payable and accrued expenses | $ 1,655,813 | $ 1,688,241 |

* Converted to a secured note in first quarter 2008

**NOTE 8 COMMITMENTS AND CONTINGENCIES**

In the normal course of business, from time to time, we are involved in legal proceedings relating to the ownership and operations of our properties. In management s opinion, the liabilities, if any, that may ultimately result from such legal actions are not expected to have a material adverse effect on our consolidated financial position, results of operations or liquidity.

We lease land or buildings at certain properties from third parties. The leases generally provide us with a right of first refusal in the event of a proposed sale of the property by the landlord. Rental payments are expensed as incurred and have, to the extent applicable, been straight-lined over the term of the lease. Contractual rental expense, including participation rent, was $4.8 million for the three months ended September 30, 2008, $14.4 million for the nine months ended September 30, 2008, $6.9 million for the three months ended September 30, 2007 and $14.2 million for the nine months ended September 30, 2007 while the same rent expense excluding amortization of above and below-market ground leases and straight-line rents, as presented in our consolidated financial statements, was $3.1 million for the three months ended September 30, 2008, $9.1 million for the nine months ended September 30, 2008, $3.3 million for the three months ended September 30, 2007 and $9.5 million for the nine months ended September 30, 2007.

We periodically enter into contingent agreements for the acquisition of properties. Each acquisition is subject to satisfactory completion of due diligence and, in the case of property acquired under development, completion of the project. In conjunction with the acquisition of The Grand Canal Shoppes in 2004, we entered into an agreement (the Phase II Agreement ) to acquire the multi-level retail space that is part of The Shoppes at The Palazzo in Las Vegas, Nevada (The Phase II Acquisition ) which is connected to the existing Venetian and the Sands Expo and Convention Center facilities and The Grand Canal Shoppes. The project opened on January 18, 2008. The acquisition closed on February 29, 2008 for an initial purchase price of $290.8 million, which was primarily funded with $250.0 million of new variable-rate short-term debt collateralized by the property and for Federal income tax purposes is being used as replacement property in a like-kind exchange. Additional purchase price payments are currently estimated at approximately $196 million (based on net operating income, as defined, of the Phase II retail space), and are presented in Accounts payable and accrued expenses in our consolidated financial statements (Note 7). Such payments will be made during the 30 months after closing with the final payment being subject to re-

GENERAL GROWTH PROPERTIES, INC.

adjustment 48 months after closing. The actual additional amounts paid over the next four years could be more or less than the current estimate.

See Note 5 for our obligations related to FIN 48 and Note 3 for disclosure of additional contingencies.

**Contingent Stock Agreement**

In conjunction with the TRC Merger, we assumed TRC s obligations under a Contingent Stock Agreement ( CSA ). TRC entered into the CSA in 1996 when it acquired The Hughes Corporation ( Hughes ). This acquisition included various assets, including Summerlin (the CSA Assets ), a development in our Master Planned Communities segment. We agreed that the TRC Merger would not have a prejudicial effect on the former Hughes owners or their successors (the Beneficiaries ) with respect to their receipt of securities pursuant to the CSA. We further agreed to indemnify and hold harmless the Beneficiaries against losses arising out of any breach by us of these covenants.

Under the CSA, we are required to issue shares of our common stock semi-annually (February and August) to the Beneficiaries. The number of shares to be issued is based on cash flows from the development and/or sale of the CSA Assets and our stock price. We account for the Beneficiaries share of earnings from the CSA Assets as an operating expense. We issued 356,661 shares of our common stock, all from treasury shares, to the Beneficiaries for the nine months ended September 30, 2008 and 698,601 (including 146,969 treasury shares) for the nine months ended September 30, 2007.

Under the CSA, we are also required to make a final stock distribution to the Beneficiaries in 2010, following a final valuation at the end of 2009. The amount of this distribution will be based on the appraised values of CSA Assets at such time and is expected to be significant. We will account for this distribution as additional investments in the related assets (that is, contingent consideration).

**Oakwood Center Damages**

Our Oakwood Center retail property located in Gretna, Louisiana incurred hurricane and/or vandalism damage in September 2005. After extensive repair and replacements, the property re-opened in October 2007. We have maintained multiple layers of comprehensive insurance coverage for the property damage and business interruption costs that were incurred and, therefore, recorded insurance recovery receivables for both such coverages. During 2007, we reached final settlements with all of the insurance carriers for our first two layers of insurance coverage pursuant to which we have received a cumulative total to date of approximately $50 million. As of December 31, 2007, all of the insurance recovery proceeds from the insurance carriers with respect to such first two layers of coverage have been applied against the initial estimated property damage with the remainder recorded as recovery of operating costs and repairs, minimum rents and provision for doubtful accounts. As a result, all of the previously recorded insurance recovery receivables were collected as of December 31, 2007.

As of September 30, 2008, litigation that commenced in 2006 continued with our remaining insurance carriers regarding additional unresolved and disputed claims with respect to deductibles, exclusions, additional business interruption coverage and the scope and cost of repair, cleaning, and replacement required at the property. Also as of September 30, 2008, we received approximately $8.8 million of additional payments from certain of the remaining insurance carriers. Such amounts are included in Accounts payable and accrued expenses in our consolidated financial statements as these collections are not settlements but rather advance payments which were subject to final settlement. In October 2008, we reached final settlements with the remaining insurance carriers in such litigation in amounts aggregating $29.5 million in excess of the advance payments previously received, all of which have been collected as of the date of this report.

**Officer Loans**

Subsequent to September 30, 2008, the independent members of the Company s Board of Directors learned that between November 2007 and September 2008, an affiliate of certain Bucksbaum family trusts advanced unsecured loans, without the Board s approval, to Mr. Michaels, the Company s chief operating officer, and Mr. Bernard Freibaum, the Company s former director and Chief Financial Officer, for the purpose of repaying personal margin debt relating to Company common stock owned by each of them. The loan to Mr. Michaels, which totaled $10 million, has been repaid in full. The loans to Mr. Freibaum totaled $90 million, of which $80 million is presently outstanding. No Company assets or resources were involved in the loans and no laws or Securities and Exchange

Commission rules were violated as a result of the loans. However, a loan by the Company to a director or officer of the Company is prohibited under applicable Company policy. Under applicable GAAP guidance, as a result of these loans, the Company may be deemed to have received a contribution to capital by the lender of the loans and to have incurred compensation expense (measured by the value of any beneficial terms of such loans at the time such loans were made) in an equal amount for no incremental equity interest in the Company. The Company has made a preliminary estimate of such expense and has concluded that such expense is immaterial to the Company s financial statements for the year ended December 31, 2007 and the three and nine months ended September 30, 2008. The Company is reviewing this guidance and will record non-cash compensation expense and a capital contribution in the fourth quarter of 2008 when such estimates are finalized.

**NOTE 9 RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS**

In June 2008, the FASB finalized Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities. The FSP affects entities that accrue cash dividends on share-based payment awards during the awards service period when dividends do not need to be returned if the employees forfeit the awards. The transition guidance in the FSP requires an entity to retroactively adjust all prior-period earnings-per-share computations to reflect the FSP s provisions. The FSP is effective for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. Early adoption of the

**GENERAL GROWTH PROPERTIES, INC.**

FSP is not permitted. We are currently evaluating the impact of this new standard on our consolidated financial statements, particularly with respect to our grants of restricted stock to employees (Note 6).

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash Upon Conversion (including Partial Cash Settlement) ( FSP 14-1 ). FSP 14-1 requires companies to separately account for the liability and equity components of applicable debt instruments in a manner that will reflect the nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. FSP 14-1 will be retrospectively applied and effective for financial statements issued for fiscal years beginning after December 15, 2008. The impact of the retrospective application of FSP 14-1 on our consolidated financial statements, particularly with respect to our Exchangeable Senior Notes (Note 4), is expected to be additional non-cash interest expense of $16.3 million for the year ended December 31, 2007 and $25.7 million for the year ended December 31, 2008.

In April 2008, the FASB issued FASB Staff Position No. 142-3, Determining the Useful Life of Intangible Assets ( FSP 142-3 ). FSP 142-3 was designed to improve the consistency between the useful life of a recognized intangible asset under SFAS No. 142, Goodwill and Other Intangible Assets , and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141 (revised 2007), Business Combinations , and other guidance under GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. Early adoption is prohibited. While we are continuing to evaluate the impact of this new standard on our consolidated financial statements, we currently do not believe such impact will be significant.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities ( SFAS 161 ), which amends SFAS No. 133, Accounting for Derivative Instruments and Hedging Activities by requiring expanded disclosures about an entity s derivative instruments and hedging activities, but does not change SFAS 133 s scope or accounting. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early adoption permitted. Management has elected not to early adopt SFAS 161 for its derivative instruments on January 1, 2008. While we are continuing to evaluate the impact of this new standard on our consolidated financial statements, we currently do not believe such impact will be significant.

In February 2008, the FASB issued two Staff Positions on SFAS 157: (1) FASB Staff Position No. FAS 157-1 ( FSP 157-1 ), Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement Under Statement 13, and (2) FASB Staff Position No. FAS 157-2 ( FSP 157-2 ), Effective Date of FASB Statement No. 157. FSP 157-1 excludes FASB Statement No. 13, Accounting for Leases , as well as other accounting pronouncements that address fair value measurements on lease classification or measurement under Statement 13, from SFAS 157 s scope. FSP 157-2 partially defers SFAS 157 s effective date to January 1, 2009 for all non financial assets and non financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

In December 2007, the FASB issued SFAS No. 141 (R), Business Combinations ( SFAS 141 (R) ), and SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements ( SFAS 160 ). SFAS 141 (R) will change how business acquisitions are accounted for and will impact the financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be re-characterized as non-controlling interests and classified as a component of equity. SFAS 141 (R) and SFAS 160 are effective for periods beginning on or after December 15, 2008. Early adoption is not permitted. We are currently evaluating the impact of these new statements on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities ( SFAS 159 ) which provides companies with an option to report selected financial assets and liabilities at fair value. The standard s objective is to reduce both complexity in accounting for financial instruments and the volatility in earnings caused by measuring related assets and liabilities differently. SFAS 159 also establishes presentation and disclosure requirements designed to facilitate comparisons between companies that choose different measurement attributes for similar types of assets and liabilities. SFAS 159 was effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. With certain limitations, early

28

adoption was permitted. Although SFAS 159 is effective for the year ending December 31, 2008, as permitted, management has elected not to adopt SFAS 159 for its existing financial assets and liabilities on January 1, 2008.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements ( SFAS 157 ) which provides enhanced guidance for using fair value to measure assets and liabilities. SFAS 157 also requires expanded disclosures about the extent to which companies measure assets and liabilities at fair value, the information used to measure fair value, and the effect of fair value measurements on earnings. The standard applies whenever other standards require (or permit) assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We have adopted SFAS 157 except as it applies to those non financial assets and non financial liabilities as noted above. The partial adoption of SFAS 157 did not have a material impact on our consolidated financial statements.

**NOTE 10 SEGMENTS**

We have two business segments which offer different products and services. Our segments are managed separately because each requires different operating strategies or management expertise. We do not distinguish or group our consolidated operations on a geographic basis. Further, all material operations are within the United States and no customer or tenant comprises more than 10% of consolidated revenues. Our reportable segments are as follows:

- Retail and Other includes the operation, development and management of retail and other rental property, primarily shopping centers
- Master Planned Communities includes the development and sale of land, primarily in large-scale, long-term community development projects in and around Columbia, Maryland; Summerlin, Nevada; and Houston, Texas, and our one residential condominium project located in Natick (Boston), Massachusetts

The operating measure used to assess operating results for the business segments is Real Estate Property Net Operating Income ( NOI ) which represents the operating revenues of the properties less property operating expenses, exclusive of depreciation and amortization and, with respect to our retail and other segment, provisions for impairment. Management believes that NOI provides useful information about a property s operating performance.

The accounting policies of the segments are the same as those of the Company, except that we report unconsolidated real estate ventures using the proportionate share method rather than the equity method. Under the proportionate share method, our share of the revenues and expenses of the Unconsolidated Properties are combined with the revenues and expenses of the Consolidated Properties. Under the equity method, our share of the net revenues and expenses of the Unconsolidated Properties are reported as a single line item, Equity in income of Unconsolidated Real Estate Affiliates, in our Consolidated Statements of Income and Comprehensive Income. This difference affects only the reported revenues and operating expenses of the segments and has no effect on our reported net earnings. In addition, other revenues include the NOI of discontinued operations and is reduced by the NOI attributable to our minority interest partners in consolidated joint ventures.

The total expenditures for additions to long-lived assets for the Master Planned Communities segment were $125.5 million for the nine months ended September 30, 2008 and $191.5 million for the nine months ended September 30, 2007. The total expenditures for additions to long-lived assets for the Retail and Other segment were $1.01 billion for the nine months ended September 30, 2008 and $1.19 billion for the nine months ended September 30, 2007. Such amounts for the Master Planned Communities segment and the Retail and Other segment are included in the amounts listed as Land/residential development and acquisitions expenditures and Acquisition/development of real estate and property additions/improvements, respectively, in our Consolidated Statements of Cash Flows.

The total amount of goodwill, as presented on our Consolidated Balance Sheets, is included in our Retail and Other segment.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

Segment operating results are as follows:

| | Three Months Ended September 30, 2008 | | |
|---|---|---|---|
| | Consolidated Properties | Unconsolidated Properties (In thousands) | Segment Basis |
| **Retail and Other** | | | |
| Property revenues: | | | |
| Minimum rents | $ 514,186 | $ 96,151 | $ 610,337 |
| Tenant recoveries | 231,548 | 40,369 | 271,917 |
| Overage rents | 14,563 | 2,002 | 16,565 |
| Other, including minority interest | 23,976 | 12,840 | 36,816 |
| Total property revenues | 784,273 | 151,362 | 935,635 |
| Property operating expenses: | | | |
| Real estate taxes | 68,128 | 10,348 | 78,476 |
| Repairs and maintenance | 57,725 | 8,763 | 66,488 |
| Marketing | 10,425 | 1,940 | 12,365 |
| Other property operating costs | 116,329 | 32,344 | 148,673 |
| Provision for doubtful accounts | 5,938 | 1,230 | 7,168 |
| Total property operating expenses | 258,545 | 54,625 | 313,170 |
| Retail and other net operating income | 525,728 | 96,737 | 622,465 |
| **Master Planned Communities** | | | |
| Land sales | 6,158 | 13,144 | 19,302 |
| Land sales operations | (8,513) | (9,513) | (18,026) |
| Master Planned Communities net operating (loss) income before provision for impairment | (2,355) | 3,631 | 1,276 |
| Provision for impairment | (40,345) | | (40,345) |
| Master Planned Communities net operating (loss) income | (42,700) | 3,631 | (39,069) |
| Real estate property net operating income | $ 483,028 | $ 100,368 | $ 583,396 |

| | Three Months Ended September 30, 2007 | | |
|---|---|---|---|
| | Consolidated Properties | Unconsolidated Properties (In thousands) | Segment Basis |
| **Retail and Other** | | | |
| Property revenues: | | | |
| Minimum rents | $ 509,762 | $ 88,684 | $ 598,446 |
| Tenant recoveries | 231,395 | 38,444 | 269,839 |

| | | | |
|---|---|---|---|
| Overage rents | 16,122 | 1,919 | 18,041 |
| Other, including minority interest | 23,852 | 16,787 | 40,639 |
| Total property revenues | 781,131 | 145,834 | 926,965 |
| Property operating expenses: | | | |
| Real estate taxes | 68,054 | 11,094 | 79,148 |
| Repairs and maintenance | 52,624 | 8,355 | 60,979 |
| Marketing | 12,237 | 2,378 | 14,615 |
| Other property operating costs | 114,418 | 34,561 | 148,979 |
| Provision for doubtful accounts | 6,275 | 693 | 6,968 |
| Total property operating expenses | 253,608 | 57,081 | 310,689 |
| Retail and other net operating income | 527,523 | 88,753 | 616,276 |
| **Master Planned Communities** | | | |
| Land sales | 54,188 | 33,536 | 87,724 |
| Land sales operations | (43,159) | (22,056) | (65,215) |
| Master Planned Communities net operating income | 11,029 | 11,480 | 22,509 |
| Real estate property net operating income | $ 538,552 | $ 100,233 | $ 638,785 |

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

| | Nine Months Ended September 30, 2008 | | |
|---|---|---|---|
| | Consolidated Properties | Unconsolidated Properties (In thousands) | Segment Basis |
| **Retail and Other** | | | |
| Property revenues: | | | |
| Minimum rents | $ 1,546,227 | $ 283,387 | $ 1,829,614 |
| Tenant recoveries | 694,727 | 118,982 | 813,709 |
| Overage rents | 38,973 | 5,037 | 44,010 |
| Other, including minority interest | 77,705 | 44,393 | 122,098 |
| Total property revenues | 2,357,632 | 451,799 | 2,809,431 |
| Property operating expenses: | | | |
| Real estate taxes | 205,781 | 33,929 | 239,710 |
| Repairs and maintenance | 176,822 | 27,009 | 203,831 |
| Marketing | 31,477 | 5,719 | 37,196 |
| Other property operating costs | 332,047 | 93,731 | 425,778 |
| Provision for doubtful accounts | 14,934 | 2,012 | 16,946 |
| Total property operating expenses | 761,061 | 162,400 | 923,461 |
| Retail and other net operating income | 1,596,571 | 289,399 | 1,885,970 |
| **Master Planned Communities** | | | |
| Land sales | 31,080 | 54,064 | 85,144 |
| Land sales operations | (33,645) | (36,115) | (69,760) |
| Master Planned Communities net operating (loss) income before provision for impairment | (2,565) | 17,949 | 15,384 |
| Provision for impairment | (40,345) | | (40,345) |
| Master Planned Communities net operating (loss) income | (42,910) | 17,949 | (24,961) |
| Real estate property net operating income | $ 1,553,661 | $ 307,348 | $ 1,861,009 |

| | Nine Months Ended September 30, 2007 | | |
|---|---|---|---|
| | Consolidated Properties | Unconsolidated Properties (In thousands) | Segment Basis |
| **Retail and Other** | | | |
| Property revenues: | | | |
| Minimum rents | $ 1,389,235 | $ 309,903 | $ 1,699,138 |
| Tenant recoveries | 626,253 | 134,388 | 760,641 |

| | | | |
|---|---|---|---|
| Overage rents | 42,578 | 5,852 | 48,430 |
| Other, including minority interest | 72,296 | 61,446 | 133,742 |
| Total property revenues | 2,130,362 | 511,589 | 2,641,951 |
| Property operating expenses: | | | |
| Real estate taxes | 180,004 | 40,615 | 220,619 |
| Repairs and maintenance | 151,514 | 30,116 | 181,630 |
| Marketing | 35,530 | 8,624 | 44,154 |
| Other property operating costs | 310,062 | 115,987 | 426,049 |
| Provision for doubtful accounts | 10,066 | 1,941 | 12,007 |
| Total property operating expenses | 687,176 | 197,283 | 884,459 |
| Retail and other net operating income | 1,443,186 | 314,306 | 1,757,492 |
| **Master Planned Communities** | | | |
| Land sales | 114,111 | 69,558 | 183,669 |
| Land sales operations | (92,845) | (44,517) | (137,362) |
| Master Planned Communities net operating income | 21,266 | 25,041 | 46,307 |
| Real estate property net operating income | $ 1,464,452 | $ 339,347 | $ 1,803,799 |

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

The following reconciles real estate property net operating income ( NOI ) to GAAP-basis operating income and income from continuing operations:

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| | (In thousands) | | (In thousands) | |
| Real estate property net operating income: | | | | |
| Segment basis | $ 583,396 | $ 638,785 | $ 1,861,009 | $ 1,803,799 |
| Unconsolidated Properties | (100,368) | (100,233) | (307,348) | (339,347) |
| Consolidated Properties | 483,028 | 538,552 | 1,553,661 | 1,464,452 |
| Management and other fees | 21,561 | 26,484 | 63,718 | 80,404 |
| Property management and other costs | (38,813) | (45,252) | (145,755) | (154,841) |
| General and administrative | (5,259) | (4,631) | (17,774) | (20,929) |
| Provisions for impairment | (15,169) | (629) | (15,778) | (2,630) |
| Depreciation and amortization | (190,386) | (189,436) | (565,888) | (527,844) |
| Minority interest in NOI of Consolidated Properties and other | 2,709 | 2,455 | 8,211 | 8,254 |
| Operating income | 257,671 | 327,543 | 880,395 | 846,866 |
| Interest income | 950 | 2,027 | 2,957 | 7,004 |
| Interest expense | (324,195) | (310,868) | (956,532) | (854,764) |
| Benefit from (provision for) income taxes | 14,841 | (14,293) | (1,416) | 256,451 |
| Minority interest | 3,258 | (1,269) | (6,032) | (60,771) |
| Equity in income (loss) of Unconsolidated Real Estate Affiliates | 16,939 | (12,499) | 61,912 | 34,441 |
| (Loss) income from continuing operations | $ (30,536) | $ (9,359) | $ (18,716) | $ 229,227 |

The following reconciles segment revenues to GAAP-basis consolidated revenues:

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 |
|---|---|---|---|---|
| | (In thousands) | | (In thousands) | |
| Segment basis total property revenues | $ 935,635 | $ 926,965 | $ 2,809,431 | $ 2,641,951 |
| Unconsolidated segment revenues | (151,362) | (145,834) | (451,799) | (511,589) |
| Consolidated land sales | 6,158 | 54,188 | 31,080 | 114,111 |
| Management and other fees | 21,561 | 26,484 | 63,718 | 80,404 |
| Minority interest in NOI of Consolidated Properties and other | 2,709 | 2,455 | 8,211 | 8,254 |
| GAAP-basis consolidated total revenues | $ 814,701 | $ 864,258 | $ 2,460,641 | $ 2,333,131 |

**GENERAL GROWTH PROPERTIES, INC.**

**ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

All references to numbered Notes are to specific footnotes to our Consolidated Financial Statements included in this Quarterly Report and which descriptions are incorporated into the applicable response by reference. The following discussion should be read in conjunction with such Consolidated Financial Statements and related Notes. Capitalized terms used, but not defined, in this Management s Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ) have the same meanings as in such Notes or in our Annual Report.

**FORWARD-LOOKING INFORMATION**

We may make forward-looking statements in this Quarterly Report and in other reports that we file with the SEC. In addition, our senior management may make forward-looking statements orally to analysts, investors, the media and others.

Forward-looking statements include:

- Projections of our revenues, income, earnings per share, Funds From Operations ( FFO ), Core FFO, capital expenditures, income tax or other contingent liabilities, dividends, leverage, capital structure or other financial items
- Descriptions of plans or objectives of our management for future operations and liquidity, including pending capital, development, redevelopment or refinancing activities
- Forecasts of our future economic performance
- Descriptions of assumptions underlying or relating to any of the foregoing

In this Quarterly Report, for example, we make forward-looking statements discussing our expectations about:

- Future strategic and financial alternatives
- Expected sales in our Master Planned Communities segment
- Future financings, repayment of debt and interest rates
- Development and redevelopment projects
- Distributions pursuant to the Contingent Stock Agreement

Forward-looking statements discuss matters that are not historical facts. Because they discuss future events or conditions, forward-looking statements often include words such as anticipate, believe, estimate, expect, intend, project, target, can, could, may, should, will, would or similar expressions. Forward-looking statements unduly relied upon. They give our expectations about the future and are not guarantees. Forward-looking statements speak only as of the date they are made and we might not update them to reflect changes that occur after the date they are made.

There are several factors, many beyond our control, which could cause results to differ materially from our expectations. Some of these factors are described in our Annual Report, which factors are incorporated herein by reference and some of these factors are described under Item 1A of this Quarterly Report. Any factor could by itself, or together with one or more other factors, adversely affect our business, results of operations or financial condition. There are also other factors that we have not described in this Quarterly Report or in our Annual Report that could cause results to differ from our expectations.

**Overview**

Our primary business is owning, managing, leasing and developing retail rental property, primarily shopping centers. Substantially all of our properties are located in the United States, but we also have retail rental property operations and property management activities (through unconsolidated joint ventures) in Brazil and Turkey. Our Master Planned Communities segment includes the development and sale of residential and commercial land, primarily in large-scale projects in and around Columbia, Maryland; Houston, Texas; and Summerlin, Nevada, as well as the development and sale of our one residential condominium project located in Natick (Boston), Massachusetts.

Prior to the acquisition of The Rouse Company in November 2004, acquisitions had been a key contributor to our growth. From 2005 through early this year, with the exception of the acquisition of our joint venture partner s

**GENERAL GROWTH PROPERTIES, INC.**

interest in Homart I and the acquisition of The Shoppes at The Palazzo, acquisitions have been minimal and we have focused on development and redevelopment projects, increasing NOI at existing retail operations, increasing our international focus and managing and refinancing our debt. As a result of uncertainties in the retail, capital and credit markets during most of 2008, we have been continually redirecting the focus of the Company. Reduced NOI growth at retail operations is expected to continue in 2008 and 2009 as a result of decreased consumer confidence and general economic conditions. Land sales at our Master Planned Communities are not expected to improve in the near term. The Company s significant maturing debt in 2008 and 2009 and the recent virtual closure of the credit markets has caused our Board of Directors and management to undertake a comprehensive examination of all of the financial and strategic alternatives for the Company, including, but not limited to, both core and non-core asset sales, the sale of joint venture interests, a corporate level capital infusion, and/or strategic business combinations.

As of the date of this report, approximately $1.74 billion of new and/or replacement financing has funded since June 30, 2008. As a result, all loans previously scheduled to mature in 2008 through the date of this report have been refinanced, continued or repaid and the Company and its subsidiaries are current with respect to their debt obligations. The Company has $900 million of property secured debt and $58 million of corporate debt that is scheduled to mature by December 1, 2008 that remains to be refinanced or extended. The Company is working with its syndicate of lenders for the property secured debt (for Fashion Show and The Shoppes at The Palazzo, two of our premier Las Vegas properties) to extend the November 28, 2008 maturity dates and is marketing The Grand Canal Shoppes and these properties for sale.

The Company has deferred construction, development or the opening of certain near and intermediate term new development and redevelopment projects and has deferred all future development expenditures other than expenditures for projects that are near completion and projects that have been approved at our jointly owned properties. The regularly scheduled quarterly dividend for the third quarter of 2008 was suspended. Continued economic weakness, including in the retail, credit and housing markets, could further impact the Company s liquidity, expected operating results and access to capital, and could also affect the carrying value and market valuation of its properties.

In the third quarter of 2008, we closed on the $1.75 billion Secured Portfolio Facility and, as of September 30, 2008, have received advances of $1.51 billion under such facility (Note 4). Although additional advances of up to $240.0 million may be made until December 31, 2008, subject to participation by additional lenders and certain other conditions, we currently do not expect such advances to be made. The proceeds from this facility have been used to repay debt maturing in 2008 and for general corporate purposes. In October and November of 2008, we closed on a $225 million secured short term loan. Proceeds of this facility have been used to repay debt maturing in 2008 and to provide additional liquidity.

During the third quarter of 2008, we sold two office parks (located in Maryland) in two separate transactions for a total sales price of approximately $47 million, resulting in total gains of $15.1 million (net of $2.9 million of minority interest) (Note 2). During the second quarter of 2008, we sold (in two separate transactions) three office buildings (two located in Maryland and one located in Las Vegas) for a total sales price of approximately $98 million (including debt assumed of approximately $84 million), resulting in total gains of $30.8 million (net of $6.2 million of minority interest). For Federal income tax purposes, the two office buildings located in Maryland sold in the second quarter were used as relinquished property in a like-kind exchange involving the acquisition of The Shoppes at The Palazzo (Note 8).

In March 2008, we sold 22,829,355 shares of GGP common stock at $36.00 per share, resulting in net proceeds of $821.9 million (Note 1). These proceeds were used primarily to pay approximately $490 million of our variable-rate debt credit facilities and approximately $200 million of our Senior Bridge Facility (Note 4).

Real estate property net operating income for the three months ended September 30, 2008 decreased $55.4 million primarily due to a $61.6 million decrease in NOI from our Master Planned Communities segment, which was partially offset by a $6.2 million increase in NOI from our Retail and Other segment. The reduction in Master Planned Community NOI is the result of the provision for impairment of $40.3 million as a result of non-recoverable development costs at Nouvelle at Natick (Note 1) and the significant reduction in sales volume at our Summerlin,

Maryland and Bridgeland communities, which we expect to continue for the balance of 2008 and into 2009.
Retail operating metrics continued to remain stable during the quarter as a result of increased GLA and the opening of expansions and renovations at certain properties and as a result of the acquisition of The Shoppes at The Palazzo. Sales per square foot (on a trailing twelve month basis) for our retail portfolio were $455 for the third quarter of 2008 compared to $461 for the third quarter of 2007. Occupancy in our retail portfolio is

GENERAL GROWTH PROPERTIES, INC.

slightly lower at 92.7% at September 30, 2008, compared to 93.2% at September 30, 2007. The weighted average mall and freestanding GLA for retail properties, excluding community centers, international properties and properties in redevelopment, increased to 64,540,333 square feet at September 30, 2008 compared to 62,683,640 square feet at September 30, 2007.

During the third quarter 2007, we completed the acquisition of our joint venture partner s interest in Homart I (Note 2) for an aggregate purchase price, including our share of debt and liabilities assumed, of $2.26 billion. Discussions of the results of operations below have been limited to only those elements of operating trends that were not a function of the Homart I acquisition.

**Seasonality**

Although we have a year-long temporary leasing program, occupancies for short-term tenants and, therefore, rental income recognized, are higher during the second half of the year. Typically, tenant vacancies are experienced in the first half of the year and space is re-leased in the second half of the year which also generates higher rental income. In addition, the majority of our tenants have December or January lease years for purposes of calculating annual overage rent amounts. Accordingly, overage rent thresholds are most commonly achieved in the fourth quarter.

**Critical Accounting Policies**

Critical accounting policies are those that are both significant to the overall presentation of our financial condition and results of operations and require management to make difficult, complex or subjective judgments. Our critical accounting policies as discussed in our 2007 Annual Report have not changed during 2008 and such policies, and the discussion of such policies, are incorporated herein by reference.

**Results of Operations**

We have presented the following discussion of our results of operations on a segment basis under the proportionate share method. Under the proportionate share method, our share of the revenues and expenses of the Unconsolidated Properties are combined with the revenues and expenses of the Consolidated Properties. Other revenues are increased by the real estate net operating income of discontinued operations, if applicable, and are reduced by our consolidated minority interest venturers share of real estate net operating income. See Note 10 for additional information including reconciliations of our segment basis results to GAAP basis results.

**Three Months Ended September 30, 2008 and 2007**

**Retail and Other Segment**

| | Three Months Ended September 30, | | $ Increase | % Increase |
|---|---|---|---|---|
| | 2008 | 2007 | (Decrease) | (Decrease) |
| | (Dollars in thousands) | | | |
| **Property revenues:** | | | | |
| Minimum rents | $ 610,337 | $ 598,446 | $ 11,891 | 2.0% |
| Tenant recoveries | 271,917 | 269,839 | 2,078 | 0.8 |
| Overage rents | 16,565 | 18,041 | (1,476) | (8.2) |
| Other, including minority interest | 36,816 | 40,639 | (3,823) | (9.4) |
| Total property revenues | 935,635 | 926,965 | 8,670 | 0.9 |
| **Property operating expenses:** | | | | |
| Real estate taxes | 78,476 | 79,148 | (672) | (0.8) |
| Repairs and maintenance | 66,488 | 60,979 | 5,509 | 9.0 |
| Marketing | 12,365 | 14,615 | (2,250) | (15.4) |
| Other property operating costs | 148,673 | 148,979 | (306) | (0.2) |
| Provision for doubtful accounts | 7,168 | 6,968 | 200 | 2.9 |

| | | | | |
|---|---|---|---|---|
| Total property operating expenses | 313,170 | 310,689 | 2,481 | 0.8 |
| **Real estate property net operating income** | $ 622,465 | $ 616,276 | $ 6,189 | 1.0% |

Higher effective rents contributed to the increase in minimum rents for the three months ended September 30, 2008 as compared to the three months ended September 30, 2007, as a result of significant increases at The Grand Canal Shoppes and Ala Moana Center. In addition, minimum rents increased as a result of the acquisition of The Shoppes at The Palazzo and the completion of the development at The Shops at Fallen Timbers and the redevelopment at Natick

**GENERAL GROWTH PROPERTIES, INC.**

Collection. The increases were partially offset by lower termination income, which was $6.4 million for the three months ended September 30, 2008 compared to $10.9 million for the three months ended September 30, 2007. Additionally, the increase was partially offset by the reduction in rent due to the sale of three office buildings in the three months ended June 30, 2008 and two office parks during the three months ended September 30, 2008.

Certain of our leases include both a base rent component and a component which requires tenants to pay amounts related to all, or substantially all, of their share of real estate taxes and certain property operating expenses, including common area maintenance and insurance. The portion of the tenant rent from these leases attributable to real estate tax and operating expense recoveries are recorded as tenant recoveries. The increase in tenant recoveries for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 is primarily attributable to the increased GLA in 2008 as a result of the acquisition of The Shoppes at The Palazzo, the completion of the development at The Shops at Fallen Timbers and the redevelopment at Natick Collection.

The decrease in overage rent is primarily due to declining tenant sales at The Grand Canal Shoppes, The Mall in Columbia and Saint Louis Galleria in the three months ended September 30, 2008 compared to the three months ended September 30, 2007.

Other revenues include all other property revenues including vending, parking, sponsorship and advertising revenues, less NOI of minority interests in consolidated joint ventures. The decrease in other revenues is primarily attributable to The Woodlands Partnership which sold various office buildings and other properties during 2007 resulting in lower recorded amounts of other revenues for the three months ended September 30, 2008 compared to the three months ended September 30, 2007.

Repairs and maintenance increased for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 primarily due to increased hurricane related repair expenses (a portion of which may be recoverable under the terms of our insurance policies) at various properties as well as higher costs for contracted cleaning services, resulting from higher costs of benefits. The acquisition of The Shoppes at The Palazzo and the completion of the development of The Shops at Fallen Timbers also contributed to the increase.

Marketing expenses for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 decreased across the Company Portfolio as the result of a strategic realignment of our marketing function. This decrease was partially offset by increased marketing expenditures at The Shoppes at The Palazzo.

**Master Planned Communities Segment**

| | Three Months Ended September 30, 2008 | Three Months Ended September 30, 2007 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Land sales | $ 19,302 | $ 87,724 | $ (68,422) | (78.0)% |
| Less Land sales operations | 18,026 | 65,215 | (47,189) | (72.4) |
| Master Planned Communities net operating (loss) income before provision for impairment | $ 1,276 | $ 22,509 | $ (21,233) | (94.3)% |
| Provision for impairment | (40,345) | | (40,345) | (100.0) |
| Real estate property net operating (loss) income | $ (39,069) | $ 22,509 | $ (61,578) | (273.6)% |

The decrease in land sales and land sales operations for the three months ended September 30, 2008 compared to the three months ended September 30, 2008 was the result of a significant reduction in sales volume at our Summerlin, Maryland, Bridgeland and The Woodlands residential communities. During the three months ended September 30, 2008, we sold 45.4 residential acres compared to 134.7 acres for the three months ended September 30, 2007. We sold 3.1 acres of commercial lots in the three months ended September 30, 2008 compared to 72.3 acres in the three months ended September 30, 2007. The provision for impairment recorded at Nouvelle at Natick reflects the

continued weak demand and the likely extension of the period required to complete all unit sales at this residential condominium project given weak economic and financing conditions (Note 1). Sales of condominium units commenced in October 2008.

As of September 30, 2008, the master planned communities have 18,477 remaining saleable acres.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

**Certain Significant Consolidated Revenues and Expenses**

| | Three Months Ended September 30, | | $ Increase | % Increase |
|---|---|---|---|---|
| | 2008 | 2007 | (Decrease) | (Decrease) |
| | (Dollars in thousands) | | | |
| Tenant rents | $760,297 | $757,279 | $ 3,018 | 0.4% |
| Land sales | 6,158 | 54,188 | (48,030) | (88.6) |
| Property operating expenses | 258,545 | 253,608 | 4,937 | 1.9 |
| Land sales operations | 8,513 | 43,159 | (34,646) | (80.3) |
| Management and other fees | 21,561 | 26,484 | (4,923) | (18.6) |
| Property management and other costs | 38,813 | 45,252 | (6,439) | (14.2) |
| General and administrative | 5,259 | 4,631 | 628 | 13.6 |
| Provisions for impairment | 55,514 | 629 | 54,885 | 8,725.8 |
| Depreciation and amortization | 190,386 | 189,436 | 950 | 0.5 |
| Interest expense | 324,195 | 310,868 | 13,327 | 4.3 |
| (Benefit from) provision for income taxes | (14,841) | 14,293 | (29,134) | (203.8) |
| Equity in income of Unconsolidated Real Estate Affiliates | 16,939 | (12,499) | 29,438 | (235.5) |
| Discontinued operations, net of minority interest - gains on dispositions | 15,121 | | 15,121 | |

Changes in consolidated tenant rents (which includes minimum rents, tenant recoveries and overage rents), land sales, property operating expenses (which includes real estate taxes, repairs and maintenance, marketing, other property operating costs and provision for doubtful accounts) and land sales operations were attributable to the same items discussed above in our segment basis results, excluding those items related to our Unconsolidated Properties.

Management and other fees, property management and other costs and general and administrative in the aggregate represent our costs of doing business and are generally not direct property-related costs. The decrease in management and other fees for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was primarily due to lower development fees and leasing commissions resulting from current market conditions. The decrease in property management and other costs for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was primarily due to lower leasing commissions and lower overall management costs, such as bonus expense, stock compensation expense and travel expense.

The increase in general and administrative for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 is primarily due to higher legal fees and public company expenses, partially offset by lower executive compensation expense.

The provisions for impairment (Note 1) for the three months ended September 30, 2008 include $40.3 million as a result of non-recoverable development costs at Nouvelle at Natick as discussed above, $7.8 million related to Century Plaza and an aggregate of $7.4 million in non-recoverable development costs at certain previously planned or proposed projects that were terminated in the third quarter 2008 as a result of the current economic conditions.

The increase in interest expense is primarily due to higher debt balances as of September 30, 2008 compared to September 30, 2007, which was the result of the new Secured Portfolio Facility, the posting of the Glendale appellate bond, the acquisition financing of The Shoppes at The Palazzo and refinancing of Fashion Show and White Marsh Mall. The increase in interest expense was also due to a decrease in capitalized interest as a result of decreased development spending in the three months ended September 30, 2008 compared to the three months ended September 30, 2007.

The decrease in (benefit from) provision for income taxes for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 was primarily due to the decrease in taxable income in 2008 from our Master Planned Community segment as a result of the impact of the income tax benefit received related to our

Nouvelle at Natick impairment provision, reversal of FIN 48 liabilities and lower land sales as discussed above.
The increase in equity in unconsolidated real estate affiliates for the three months ended September 30, 2008 compared to the three months ended September 30, 2007 is primarily the result of an accrual of the Company s 50% share of the Glendale Matter that was recorded by GGP/Homart II during the three months ended September 30,

GENERAL GROWTH PROPERTIES, INC.

2007. Such costs are currently reflected in the Consolidated Statements of Income and Comprehensive Income (Note 3).

The discontinued operations, net of minority interest gains on dispositions represents the gains from the sale of two office parks, as discussed above, in the three months ended September 30, 2008.

**Nine Months Ended September 30, 2008 and 2007**

**Retail and Other Segment**

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| **Property revenues:** | | | | |
| Minimum rents | $ 1,829,614 | $ 1,699,138 | $ 130,476 | 7.7% |
| Tenant recoveries | 813,709 | 760,641 | 53,068 | 7.0 |
| Overage rents | 44,010 | 48,430 | (4,420) | (9.1) |
| Other, including minority interest | 122,098 | 133,742 | (11,644) | (8.7) |
| Total property revenues | 2,809,431 | 2,641,951 | 167,480 | 6.3 |
| **Property operating expenses:** | | | | |
| Real estate taxes | 239,710 | 220,619 | 19,091 | 8.7 |
| Repairs and maintenance | 203,831 | 181,630 | 22,201 | 12.2 |
| Marketing | 37,196 | 44,154 | (6,958) | (15.8) |
| Other property operating costs | 425,778 | 426,049 | (271) | (0.1) |
| Provision for doubtful accounts | 16,946 | 12,007 | 4,939 | 41.1 |
| Total property operating expenses | 923,461 | 884,459 | 39,002 | 4.4 |
| **Real estate property net operating income** | $ 1,885,970 | $ 1,757,492 | $ 128,478 | 7.3% |

Higher effective rents across the Company Portfolio contributed to the increase in minimum rents for the nine months ended September 30, 2008 primarily as the result of significant increases at Ala Moana Center and The Grand Canal Shoppes. In addition, minimum rents increased due to the acquisition of The Shoppes at The Palazzo, the completion of the development projects at The Shops at Fallen Timbers and Gateway Overlook and the redevelopment projects at Oakwood Center and Natick Collection. Termination income increased to $34.8 million for the nine months ended September 30, 2008 compared to $18.2 million for the nine months ended September 30, 2007, primarily due to a few large tenant termination agreements in the first quarter of 2008.

Certain of our leases include both a base rent component and a component which requires tenants to pay amounts related to all, or substantially all, of their share of real estate taxes and certain property operating expenses, including common area maintenance and insurance. The portion of the tenant rent from these leases attributable to real estate tax and operating expense recoveries are recorded as tenant recoveries. The increase in tenant recoveries for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is primarily attributable to the increased GLA in 2008 as a result of the acquisition of The Shoppes at The Palazzo, the completion of the development at The Shops at Fallen Timbers and the redevelopment at Natick Collection.

The decrease in overage rent is primarily due to declining tenant sales at Boise Towne Square, Coastland Center and Valley Plaza Mall as well as the properties mentioned above for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007. In addition, overage rent decreased at certain other properties as the result of modified lease terms for various tenants.

Other revenues include all other property revenues including vending, parking, sponsorship and advertising revenues, less NOI of minority interests in consolidated joint ventures. The decrease in other revenues is primarily attributable to The Woodlands Partnership which sold various office buildings and other properties during 2007 resulting in lower recorded amounts of other revenues for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

Real estate taxes increased for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 due to the completion of development and redevelopment projects at Ala Moana Center, Glenbrook Square, Mall of Louisiana, River Falls and The Shops at Fallen Timbers and the resulting higher tax assessments at such properties.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

Repairs and maintenance increased across the Company Portfolio for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 due to higher costs for contracted cleaning services, primarily resulting from higher costs of benefits and increased hurricane related repair expenses (a portion of which may be recoverable under the terms of our insurance policies) at various properties. The acquisition of The Shoppes at The Palazzo, the completion of the development of The Shops at Fallen Timbers and the redevelopments at Ala Moana Center and Natick Collection also contributed to the increase.

Marketing expenses for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 decreased across the Company Portfolio as the result of a strategic realignment of our marketing function in 2008. This decrease was partially offset by increased marketing expenditures at The Shoppes at The Palazzo.

The provision for doubtful accounts increased for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 primarily due to adjustments in 2007 to reverse amounts previously reserved at two of our properties. In 2007, the provision for doubtful accounts was reduced to include insurance recoveries collected for Oakwood Center and Riverwalk Marketplace, which offset reserved tenant rents. The increases were partially offset by decreases in the provision for doubtful accounts at Otay Ranch Town Center and South Street Seaport for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

**Master Planned Communities Segment**

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Land sales | $ 85,144 | $ 183,669 | $ (98,525) | (53.6)% |
| Less Land sales operations | 69,760 | 137,362 | (67,602) | (49.2) |
| Master Planned Communities net operating (loss) income before provision for impairment | $ 15,384 | $ 46,307 | $ (30,923) | (66.8)% |
| Provision for impairment | (40,345) | | (40,345) | (100.0) |
| Real estate property net operating (loss) income | $ (24,961) | $ 46,307 | $ (71,268) | (153.9)% |

The decrease in land sales and land sales operations for the Master Planned Communities segment for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is primarily the result of a significant reduction in sales at each of our master planned communities. We sold 226.8 acres of residential lots and 28.3 acres of commercial lots during the nine months ended September 30, 2008 compared to 337.6 acres of residential lots and 108.3 acres of commercial lots for the nine months ended September 30, 2007. The diminished demand for residential and commercial lots, a trend from the first quarter 2008, is expected to continue into 2009. The provision for impairment (Note 1) recorded at Nouvelle at Natick reflects the continued weak demand and the likely extension of the period required to complete all unit sales at this residential condominium project given weak economic and financing conditions. Sales of condominium units commenced in October 2008.

**Certain Significant Consolidated Revenues and Expenses**

| | Nine Months Ended September 30, 2008 | Nine Months Ended September 30, 2007 | $ Increase (Decrease) | % Increase (Decrease) |
|---|---|---|---|---|
| | (Dollars in thousands) | | | |
| Tenant rents | $2,279,927 | $2,058,066 | $221,861 | 10.8% |
| Land sales | 31,080 | 114,111 | (83,031) | (72.8) |
| Property operating expenses | 761,061 | 687,176 | 73,885 | 10.8 |

| | | | | |
|---|---|---|---|---|
| Land sales operations | 33,645 | 92,845 | (59,200) | (63.8) |
| Management and other fees | 63,718 | 80,404 | (16,686) | (20.8) |
| Property management and other costs | 145,755 | 154,841 | (9,086) | (5.9) |
| General and administrative | 17,774 | 20,929 | (3,155) | (15.1) |
| Provisions for impairment | 56,123 | 2,630 | 53,493 | 2,034.0 |
| Depreciation and amortization | 565,888 | 527,844 | 38,044 | 7.2 |
| Interest expense | 956,532 | 854,764 | 101,768 | 11.9 |
| Provision for (benefit from) income taxes | 1,416 | (256,451) | 257,867 | (100.6) |
| Equity in income of Unconsolidated Real Estate Affiliates | 61,912 | 34,441 | 27,471 | 79.8 |
| Discontinued operations, net of minority interest - gains on dispositions | 45,941 | | 45,941 | |

Changes in consolidated tenant rents (which includes minimum rents, tenant recoveries and overage rents), land sales, property operating expenses (which includes real estate taxes, repairs and maintenance, marketing, other

**GENERAL GROWTH PROPERTIES, INC.**

property operating costs and provision for doubtful accounts) and land sales operations were attributable to the same items discussed above in our segment basis results, excluding those items related to our Unconsolidated Properties.
Management and other fees, property management and other costs and general and administrative in the aggregate represent our costs of doing business and are generally not direct property-related costs. The decrease in management and other fees for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 was primarily due to the loss of revenues as the result of the Homart I acquisition, in addition to lower development fees and leasing commissions which is the result of current market conditions.

The decrease in property management and other costs for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 was primarily due to lower leasing commissions and lower overall management costs, such as bonus expense, stock compensation expense and travel expense.

The decrease in general and administrative is due to lower executive compensation expense, as such costs were higher for the nine months ended September 30, 2007 due to higher stock option expense resulting from the acceleration of the vesting period for certain stock options. The decrease was partially offset by higher legal fees and public company expenses incurred for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007.

The provisions for impairment for the nine months ended September 30, 2008 include $40.3 million as a result of non-recoverable development costs at Nouvelle at Natick, $7.8 million related to Century Plaza and an aggregate of $7.4 million in non-recoverable development costs at certain previously planned or proposed projects that were terminated in the third quarter 2008 as a result of the current economic conditions.

The increase in interest expense is primarily due to higher debt balances as of September 30, 2008 compared to September 30, 2007, which was the result of the new Secured Portfolio Facility, the posting of the Glendale appellate bond, the Exchangeable Senior Notes, funding of the Homart I acquisition, the assumption of debt related to the Homart I acquisition, the acquisition of The Shoppes at The Palazzo and the refinancing of Fashion Show and White Marsh Mall. The increase in interest expense was also due to a decrease in capitalized interest as a result of decreased development spending in the three months ended September 30, 2008 compared to the three months ended September 30, 2007.

The increase in provision for (benefit from) income taxes was primarily due to the approximately $300 million total tax benefit recognized for the nine months ended September 30, 2007 attributable to the tax restructuring of certain of our operating subsidiaries (Note 5). Such increase was partially offset by the decrease in provision for income taxes for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 as the result of the decrease in taxable income in 2008 from our Master Planned Community segment. In addition, in 2008 we recognized income tax benefits related to our Nouvelle at Natick impairment provision and reversal of FIN 48 liabilities.

The increase in equity in unconsolidated real estate affiliates for the nine months ended September 30, 2008 compared to the nine months ended September 30, 2007 is primarily the result of the provision, in litigation and in other general and administrative costs and interest expense, of the Company s 50% share of the Glendale Matter that was recorded by GGP/Homart II during the nine months ended September 30, 2007. Such costs are currently reflected in the Consolidated Statements of Income and Comprehensive Income.

The discontinued operations, net of minority interest gains on dispositions represents the gain on dispositions from the sale of two office parks and the gain on dispositions from the sale of three office buildings as discussed above.

**Liquidity and Capital Resources**

As of September 30, 2008, we had approximately $1.13 billion and $3.07 billion in debt maturing in 2008 and 2009, respectively (Note 4). As of the date of this report, we have $900 million of property secured debt and $58 million of corporate debt that is scheduled to mature by December 1, 2008. We are working with our syndicate of lenders to extend the November 28, 2008 maturity dates for the property secured debt and pursuing a variety of refinancing and extension alternatives with respect to the corporate debt. We are also in the process of pursuing all of our strategic and financial alternatives.

In addition, we have deferred certain development and redevelopment projects and will continue to evaluate economic and financing conditions and determine, in light of such conditions, when to recommence such

GENERAL GROWTH PROPERTIES, INC.

development and redevelopment expenditures. We have sold certain office assets and suspended our third quarter dividend. To repay maturing debt and to provide cash for liquidity, we obtained a $225 million secured short term loan in October and November 2008 with a scheduled maturity of February 1, 2009, which may be extended for an additional 60 days at the discretion of the lender.

In addition to our debt maturities, we need cash to satisfy our working capital needs, including as a result of demands to provide additional cash collateral to various surety companies and utility providers. We do not anticipate that either our revolving credit facility or the Secured Portfolio Facility can be a significant source of working capital.

Given the continued weakness of the retail and credit markets, there can be no assurance that we can obtain extensions or refinance our existing debt or obtain the additional capital necessary to satisfy our short term cash needs on satisfactory terms. In the event that we are unable to extend or refinance our debt or obtain additional capital on a timely basis and on acceptable terms, we will be required to take further steps to acquire the funds necessary to satisfy our short term cash needs, including seeking legal protection from our creditors. The failure to refinance or extend the $900 million of property secured debt would trigger an event of default under our Senior Credit Facility and our Secured Portfolio Facility. The failure to refinance or extend the $58 million of corporate debt would also trigger an event of default under our Secured Portfolio Facility and under certain of the TRCLP bonds.

**Cash Flows from Operating Activities**

Net cash provided by operating activities was $408.1 million for the nine months ended September 30, 2008 and $413.9 million for the nine months ended September 30, 2007.

Cash used for Land/residential development and acquisitions expenditures was $125.5 million for the nine months ended September 30, 2008 a decline from $191.5 million for the nine months ended September 30, 2007. The decline was primarily due to the deferral of development projects in 2008 in our Master Planned Communities segment.

In April 2008, in conjunction with the Glendale Matter (Note 3), $67.1 million in cash was paid as cash collateral for the appellate bond of $134.1 million.

Net cash provided by (used in) working capital needs totaled $2.1 million in 2008 and ($8.3) million in 2007. The increase was due to increased NOI from our Retail and Other segment which is primarily due to the Homart I acquisition in July 2007 (Note 2) and increased termination income for the nine months ended September 30, 2008. In addition, higher accounts payable and accrued expenses, primarily construction payables, contributed to the increase.

**Cash Flows from Investing Activities**

Net cash used in investing activities was $1.02 billion for the nine months ended September 30, 2008 and $1.47 billion for the nine months ended September 30, 2007. Included in these amounts is cash received from the sale of three office buildings in April 2008 and an additional two office parks in September 2008 (Note 2), some of which was not available for use during the time such cash was part of like-kind exchanges that now have been completed.

Net investing cash used in our Unconsolidated Real Estate Affiliates was $86.1 million in 2008 and $279.1 million in 2007. The decrease in cash used in 2008 was primarily attributed to higher capital contributions in 2007 to GGP/Homart II and international joint ventures for acquisitions and development expenditures.

Cash used for acquisition/development of real estate and property additions/improvements was $1.01 billion for the nine months ended September 30, 2008 a decline from $1.19 billion for the nine months ended September 30, 2007. The decline was primarily due to the deferral of certain development projects in 2008 partially offset by approximately $292.4 million used for acquisition activity (primarily The Shoppes at The Palazzo).

**Cash Flows from Financing Activities**

Net cash provided by financing activities was $647.6 million for the nine months ended September 30, 2008 and $1.01 billion for the nine months ended September 30, 2007.

New financings exceeded principal payments by $326.6 million in 2008 and $1.55 billion in 2007. The financing activity in 2008 reflects the proceeds from the sale of GGP common stock of approximately $821 million (Note 1), the Senior Bridge Facility and other new financings and refinancings, partially offset by the repayment of maturing

**GENERAL GROWTH PROPERTIES, INC.**

debt. The financing activity in 2007 reflects draws and repayments on the revolving credit facility as well as the issuance of the $1.55 billion Notes offering. Costs associated with new financings for the nine months ended September 30 were $40.8 million in 2008 and $28.5 million in 2007.

In July 2008, we closed on the $1.75 billion Secured Portfolio Facility and have, as of September 30, 2008, received advances of $1.51 billion under such facility (Note 4). Although additional advances of up to $240.0 million may be made until December 31, 2008, subject to participation by additional lenders and certain other conditions, we currently do not expect such advances to be made. Proceeds from the Secured Portfolio Facility have been used to repay debt maturing in 2008 and for general corporate purposes. In October and November 2008, we closed on a $225 million secured short term loan. Proceeds of this facility have been used to repay debt maturing in 2008 and to provide additional liquidity.

Distributions to common stockholders, holders of Common Units and holders of perpetual and convertible preferred units totaled $476.3 million for the nine months ended September 30, 2008 and $410.8 million for the nine months ended September 30, 2007. Dividends paid per common share were $1.50 for the nine months ended September 30, 2008 and $1.35 for the nine months ended September 30, 2007. Following a determination that required REIT distributions (as described below) for 2008 have been made, assuming actual ordinary taxable income is as projected and no significant additional asset sales are completed in 2008, certain dividends and distributions, including dividends to common stockholders, were suspended for the third quarter 2008 to preserve working capital. In determining whether to declare a distribution, the Board of Directors considers a number of factors, including operating cash flow. There can be no assurance that such distributions will recommence.

**REIT Requirements**

In order to remain qualified as a real estate investment trust for federal income tax purposes (Note 5), we must distribute at least 90% of our ordinary taxable income to stockholders and either distribute or pay tax on our capital gains.

**Recently Issued Accounting Pronouncements**

As described in Note 9, new accounting pronouncements have been issued which impact or could impact the prior, current, or subsequent years.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes in the market risks described in our Annual Report.

**ITEM 4. CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

As of the end of the period covered by this report, we carried out an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer ( CEO ) and Chief Financial Officer ( CFO ), of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15(d)-15(e) under the Securities Exchange Act of 1934, as amended, (the Exchange Act )). Based on that evaluation, the CEO and the CFO have concluded that our disclosure controls and procedures are effective.

**Internal Controls over Financial Reporting**

There have been no changes in our internal controls during our most recently completed fiscal quarter that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

**GENERAL GROWTH PROPERTIES, INC.**

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

Except as described in Note 3, neither the Company nor any of the Unconsolidated Real Estate Affiliates is currently involved in any material pending legal proceedings nor, to our knowledge, is any material legal proceeding currently threatened against the Company or any of the Unconsolidated Real Estate Affiliates.

### ITEM 1A. RISK FACTORS

Material changes to the risk factors previously disclosed in our Annual Report are as follows:

***We may not be able to refinance or repay our substantial indebtedness, which could have a materially adverse affect on our business, financial condition, results of operations and common stock price.***

We have a substantial amount of debt which we may not be able to refinance or repay. As of September 30, 2008, we have approximately $1.13 billion and $3.07 billion in debt maturing in 2008 and 2009, respectively. Due to the continued weakness in the credit markets, there can be no assurance that we will be able to refinance this debt on acceptable terms or otherwise. Our ability to successfully refinance our debt is also negatively effected by recent downgrades of our debt by national credit ratings agencies as well as the real or perceived decline in the value of our properties based on deteriorating general and retail economic conditions, as discussed further below.

In September, 2008, we announced that we were working with our advisors to develop a comprehensive strategic plan to generate capital from a variety of sources, including, but not limited to, both core and non-core asset sales, the sale of joint venture interests, a corporate level capital infusion, and/or strategic business combinations. There can be no assurance that any of these planned capital raising activities will be successful.

Failure to refinance or repay our debt as it comes due, or a failure to satisfy the conditions and requirements of such debt as outlined above, will likely result in an event of default under such debt and would allow the lender to accelerate such debt. In addition, a default under certain debt obligations could also constitute an event of default under other debt as a result of certain cross-default and cross collateralization provisions. If our debt is accelerated, our assets may not be sufficient to repay such debt in full, and our available cash flow may not be adequate to maintain our current operations. Under such circumstances, or if we believe such circumstances are likely to occur, we may consider or pursue various forms of negotiated restructurings of our debt and equity obligations and/or asset sales, which may be required to occur under court supervision.

If we are unable to refinance or repay our debt as it comes due and maintain sufficient cash flow, our business, financial condition, results of operations and common stock price will be materially and adversely affected.

***Deteriorating economic conditions will have an adverse affect on our revenues and available cash, and may also impair our ability to sell our properties.***

General and retail economic conditions continue to weaken, and we expect this weakness to continue and worsen in 2009 as the economy enters a recessionary or near recessionary period. Consumer spending recently declined for the first time in 17 years, the unemployment rate is expected to rise, consumer confidence has decreased dramatically and the stock market remains extremely volatile. Given these expected economic conditions, we believe there is a significantly increased risk that the sales of stores operating in our centers will decrease, negatively affecting their ability to make minimum rent payments and increasing the risk of tenant bankruptcies. In addition to the direct adverse effect of tenant failures to pay minimum rents and tenant bankruptcies on our operations, these events also negatively affect our ability to attract and maintain minimum rent levels for new tenants. These circumstances negatively affect our revenues and available cash, and also reduce the value of our properties, reducing the likelihood that we would be able to sell such properties, on attractive terms or at all.

***Our senior management changes and exploration of financing alternatives may adversely affect us.***

We are currently working with our advisors to develop a comprehensive strategic plan to generate capital from a variety of sources. In addition, in October of 2008 we replaced our Chief Executive Officer, President and Chief Financial Officer, but did not make changes with respect to the Chairman of the Board and the Chief Operating

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

Officer. This focus on capital raising activities and recent changes in our senior management could adversely affect our operations in a number of ways, including the risks that such activities could, among other things:

- Disrupt operations and distract management;
- Fail to successfully achieve their expected benefits;
- Be time consuming and expensive and result in the loss of business opportunities;
- Subject us to litigation;
- Result in increased difficulties due to uncertainties regarding our future operations; and
- Cause the trading price of our common stock to decrease and/or be highly volatile.

***If the price per share of our common stock trades below $1.00 for an extended period of time or shares of our common stock are otherwise delisted from the NYSE, there could be a negative affect on our business that could significantly impact our financial condition, our results of operation and our ability to service our debt obligations.***

Although the price of our common stock has remained above $1.00, in the event our common stock closes below $1.00 for 30 consecutive days, our stock could be delisted from the NYSE. The threat of delisting and/or a delisting of our common stock could have adverse effects by, among other things:

- Reducing the liquidity and market price of our common stock;
- Reducing the number of investors willing to hold or acquire our common stock, thereby further restricting our ability to obtain equity financing;
- Causing an event of default under certain of our debt facilities; and
- Reducing our ability to retain, attract and motivate our directors, officers and employees.

***Our common stock price may continue to be adversely affected***

The price of our common stock has decreased materially and will continue to be affected by the factors described under this Item 1A. Risk Factors, as well the Risk Factors disclosed in our Annual Report.

***We have a low tax basis in many of our properties relative to fair market value, which would reduce the amount of net proceeds we would receive upon a sale of such properties.***

We have a low tax basis in many of our properties relative to the fair market value of such properties. As a result of this low tax basis, we could recognize a substantial taxable gain upon the sale of such properties, which would impact the amount of net proceeds we would retain from any such sales as a result of the REIT distribution requirements.

***Our debt covenants restrict our ability to enter into certain capital raising transactions.***

As discussed elsewhere in this report, we are currently considering all of our capital raising alternatives, including asset sales, sales of joint venture interests, corporate level capital infusions and strategic business combinations. However, certain of our material debt obligations require us to comply with customary financial performance and other covenants, including but not limited to stipulations related to leverage and net equity, and other financial requirements and ratios. Some or all of these covenants could be affected by an capital raising transaction we undertake, and certain transactions are directly restricted or prohibited by such covenants. Absent any waiver of, or modification to, such covenants our ability to structure and consummate any capital raising transaction is restricted by our need to remain in compliance with such covenants.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

None.

**ITEM 5. OTHER INFORMATION**

None.

Table of Contents

**GENERAL GROWTH PROPERTIES, INC.**

**ITEM 6. EXHIBITS**

10.1 Loan Agreement dated as of July 11, 2008, among the borrowers named therein; the lenders from time to time party thereto; Eurohypo AG, New York Branch ( Eurohypo ), as Administrative Agent; Wachovia Capital Markets LLC, Eurohypo and ING Real Estate Finance (USA) LLC ( ING ), as Joint Lead Arrangers and Book Managers; the Documentation Agents, as defined therein; and Wachovia Bank, National Association and ING, as Co-Syndication Agents (previously filed as Exhibit 10.1 to the Current Report on Form 8-K dated July 11, 2008, incorporated herein by reference).

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Consolidated Financial Statements of The Rouse Company LP, a subsidiary of General Growth Properties, Inc.
Pursuant to Item 601(b)(4)(v) of Regulation S-K, the registrant has not filed debt instruments relating to long-term debt that is not registered and for which the total amount of securities authorized thereunder does not exceed 10% of total assets of the registrant and its subsidiaries on a consolidated basis as of September 30, 2008. The registrant agrees to furnish a copy of such agreements to the SEC upon request.

Table of Contents

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

GENERAL GROWTH PROPERTIES, INC.
(Registrant)

Date: November 10, 2008

by: /s/ Edmund Hoyt
Edmund Hoyt
Senior Vice President and Chief Financial Officer
(On behalf of the Registrant and as Principal Accounting Officer)

## EXHIBIT INDEX

31.1 Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.1 Consolidated Financial Statements of The Rouse Company LP, a subsidiary of General Growth Properties, Inc.
Pursuant to Item 601(b)(4)(v) of Regulation S-K, the registrant has not filed debt instruments relating to long-term debt that is not registered and for which the total amount of securities authorized thereunder does not exceed 10% of total assets of the registrant and its subsidiaries on a consolidated basis as of September 30, 2008. The registrant agrees to furnish a copy of such agreements to the SEC upon request.