



COMPANY UPDATE / ESTIMATE CHANGES

REITs

Analyst: Carol L. Kemple
502.588.1839 / CKemple@hilliard.com
Institutional Sales Desk: George Moorin
502.588.9141 / GMoorin@hilliard.com
J.J.B. Hilliard, W.L. Lyons, LLC
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Key Metrics

GGP - NYSE (as of 8/2/2017)	\$21.91
Price Target	N/A
52-Week Range	\$21.05 - \$31.02
Shares Outstanding (mm)	956
Market Cap. (\$mm)	\$20,946
3-Mo. Average Daily Volume (000)	6,755
Institutional Ownership	97%
Debt/Total Market Capital - Pro rata (6/17)	47%
Est 3 -Year FFO Growth Rate	NA
Est 3- Year Dividend Growth Rate	2% - 5%
Dividend	\$0.88
Dividend Yield	4.0%

FFO Per Share FY 12/31

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$0.38		\$0.36 A	\$0.42	\$0.43
2Q	\$0.36	\$0.35	\$0.40 A	\$0.40	\$0.37
3Q	\$0.35	\$0.38	\$0.37	\$0.38	\$0.38
4Q	\$0.48	\$0.44	\$0.46	\$0.45	\$0.47
Year	\$1.57	\$1.53	\$1.59	\$1.65	\$1.66
P/FFO	14.0x		13.8x		13.2x

NOI (Net Operating Income) (\$mm)

	2016	Prior 2017E	Curr. 2017E	Prior 2018E	Curr. 2018E
1Q	\$422		\$399 A	\$445	\$448
2Q	\$410		\$391 A	\$432	\$416
3Q	\$395	\$415	\$411	\$418	\$420
4Q	\$442	\$467	\$470	\$474	\$474
Year	\$1,669	\$1,677	\$1,671	\$1,768	\$1,757

*Previous FFO and NOI amounts have not been restated.

Quarterly amounts may not add up to full year amounts due to rounding.

Company Description: GGP Inc., headquartered in Chicago, Illinois, is a retail focused REIT that owns and operates high quality retail properties (primarily malls) throughout the United States.

GGP Inc.

GGP - NYSE – Neutral - 2

Second Quarter Results

- **GGP reported second quarter FFO of \$0.40 per share versus \$0.36 per share in the year ago period.** This was ahead of ours and the consensus estimate. The main difference between our estimate and actual results was a \$55.1 million gain on the extinguishment of debt in the quarter.
- **The same store portfolio was 95.7% leased.** Initial rents for signed leases commenced in the trailing twelve months increased 10.0%.
- **Development Activity.** GGP has development, redevelopment, and expansion plans underway or in the pipeline at numerous properties. Total spend is expected to be \$1.5 billion.
- **GGP is done exploring strategic alternatives.** CEO Sandeep Mathrani mentioned on the 1Q17 company's earnings call that there was a wide discount between public and private market prices and because of that the company was evaluating all strategic alternatives to create shareholder value. Mr. Mathrani mentioned on the 2Q17 earnings call that the company has completed this review and has decided to stay the course with its current strategy.
- **Management adjusted 2017 FFO per share guidance to a range of \$1.59 to \$1.63.** Our revised FFO per share estimate is \$1.59.
- **We are maintaining our Neutral rating.** Our rating is based on valuation only, as we continue to like the fundamentals for GGP.

**Note Important Disclosures on Pages 6 and 7.
Note Analyst Certification on Page 6.**

Additional Discussion

Total revenues for the second quarter were \$555.8 million, down 3.3% from the year ago period (please see page 3). Minimum (base) rent, which made up 62.8% of total revenue, was down 3.9%. Tenant recoveries, the next largest revenue item, were \$161.9 million versus \$169.8 million in 2Q16 and represented an estimated 112.6% versus 116.8% of total real estate expenses, including property operating expenses, real estate taxes, maintenance, advertising, and a credit loss provision.

The same store portfolio was 95.7% leased at quarter end. Initial rents for signed leases commenced in the past 12 months increased 10.0%. Comparable NOI (net operating income) increased 0.7% in the quarter.

Net income available to common shareholders was \$121.9 million compared to \$182.0 million in the year ago period. Funds from operations were \$0.40 per share versus \$0.36 per share in the year ago period.

Overview

Retail Environment - Total sales per square foot at GGP's malls were up 0.8% on a trailing twelve month basis. We believe many retailers with expansion plans would rather open up shop in quality class A malls like many of GGP's, instead of class B and C malls. GGP is seeing strong demand for space in its centers. To date the company has released nearly 80% of the space in its portfolio that has been impacted by store closings this year.

Acquisitions & Dispositions - During the quarter, GGP acquired a box space at one mall and its partner's interest in another mall. The company increased its ownership interest in two unconsolidated assets. One non-core mall was sold in the quarter and another was given back to the lender.

In July GGP completed two transactions with Seritage Growth Properties (SRG - \$46.74) for total consideration of \$247.6 million. GGP purchased SRG's 50% interest in eight of the 12 assets in the existing joint venture between the two companies for \$190.1 million. In addition, GGP purchased a 50% interest in five other assets for \$57.5 million.

Development & Renovation Activity - GGP has redevelopment projects underway and in the pipeline at numerous properties. Total spend is expected to be \$1.5 billion.

Exploring Strategic Alternatives - CEO Sandeep Mathrani mentioned on the 1Q17 company's earnings call that there was a wide discount between public and private market prices and because of that the company was evaluating all strategic alternatives to create shareholder value. Mr. Mathrani mentioned on the 2Q17 earnings call that the company has completed this review and has decided to stay the course with its current strategy. If a larger opportunity arises, management will evaluate it in its ongoing efforts to maximize shareholder value.

Share Repurchase - GGP was not in a position to buy shares in 2Q because of a comment made at the end of 1Q about exploring strategic alternatives. This restriction is lifted August 4.

Financials - The company has no remaining debt maturities in 2017. GGP has \$519.2 million of debt maturities in 2018. Approximately 79.1% of the company's debt is at fixed rates. At the end of 2Q, the weighted average interest rate on the company's debt was 4.12%. We believe the company's near term debt maturities are manageable.

Guidance and Estimates - Management adjusted 2017 FFO per share guidance to a range of \$1.59 to \$1.63. Our revised 2017 FFO per share estimate is \$1.59.

Consolidated Statements of Operations

<i>(In thousands, except per share)</i>	2Q17	2Q16	% Change
Revenues:			
Minimum rents	\$349,205	\$363,412	-3.9%
Tenant recoveries	161,926	169,763	-4.6%
Overage rents	3,280	4,375	-25.0%
Management fees and other corporate revenues	20,847	18,917	10.2%
Other	20,538	18,119	13.4%
Total revenues	555,796	574,586	-3.3%
Expenses:			
Real estate taxes	59,042	57,309	3.0%
Property maintenance costs	10,724	11,955	-10.3%
Marketing	1,296	2,738	-52.7%
Other property operating costs	69,590	71,601	-2.8%
Provision for doubtful accounts	3,166	1,710	85.1%
(Recovery of) provision for loan loss			
Property management and other costs	39,025	38,282	1.9%
General and administrative	15,862	14,650	8.3%
Provision for impairment		4,058	
Depreciation and amortization	174,298	156,248	11.6%
Total expenses	373,003	358,551	4.0%
Operating income	182,793	216,035	-15.4%
Interest and dividend income	17,452	13,335	30.9%
Interest expense	(134,209)	(148,366)	
Gain (loss) on foreign currency	(3,877)	7,893	
Gain on extinguishment of debt	55,112		
Gain from changes in control of investment properties and other	(15,841)	38,553	
Income before income taxes, equity in income of unconsolidated real estate affiliates, discontinued operations and allocation to noncontrolling interests	101,430	127,450	
Benefit from (provision for) income taxes	(3,844)	2,242	
Equity in income of unconsolidated real estate affiliates	30,732	34,618	-11.2%
Unconsolidated real estate affiliates - gain on investment		25,591	
Income from continuing operations	128,318	189,901	-32.4%
Discontinued operations			
Net income	128,318	189,901	-32.4%
Allocation to noncontrolling interests	(2,455)	(3,956)	
Net income attributable to GGP	125,863	185,945	-32.3%
Preferred stock dividend	(3,984)	(3,983)	
Net income attributable to common stockholders	\$121,879	\$181,962	-33.0%
Diluted income per share	\$0.13	\$0.19	-31.6%

Funds From Operations	2Q17	2Q16	% Change
Net income attributable to GGP	\$125,863	\$185,945	-32.3%
Depreciation and amortization of capitalized real estate costs - consolidated properties	169,867	152,134	11.7%
Depreciation and amortization of capitalized real estate costs - unconsolidated properties	74,566	68,038	9.6%
Gain from changes in control of investment properties and other	15,841	(38,553)	
Gain on sale of investment properties	83		
Preferred stock dividends	(3,984)	(3,983)	
Loss on sales of investment properties			
Loss (gains) from changes in control of investment properties and other			
Unconsolidated real estate affiliates - gain on investment		(25,591)	
Noncontrolling interests in depreciation of Consolidated Properties	(2,008)	(1,168)	
Provision for impairment excluded from FFO		4,058	
Redeemable noncontrolling interests	975	1,358	
Depreciation and amortization of discontinued operations			
FFO	\$381,203	\$342,238	11.4%
FFO per share	\$0.40	\$0.36	11.1%
Weighted average diluted common shares outstanding	952,013	958,833	-0.7%

Source: Company report

Consolidated Balance Sheets

(In thousands)	12/31/2015	12/31/2016	6/30/2017
Investments in real estate:			
Land	\$3,596,354	\$3,066,019	\$3,043,007
Buildings and equipment	16,379,789	16,091,582	16,144,950
Less accumulated depreciation	(2,452,127)	(2,737,286)	(2,930,511)
Construction in progress	308,903	251,616	273,008
Net property and equipment	17,832,919	16,671,931	16,530,454
Investment in and loans to/from unconsolidated real estate affiliates	3,466,040	3,868,993	3,866,518
Net investment in real estate	\$21,298,959	\$20,540,924	\$20,396,972
Cash and cash equivalents	356,895	474,757	277,626
Accounts and notes receivable, net	949,556	1,000,692	910,930
Deferred expenses, net	214,578	209,582	269,445
Prepaid expenses and other assets	1,037,334	506,521	472,473
Assets held for disposition	216,233		
Total assets	\$24,073,555	\$22,732,476	\$22,327,446
Liabilities:			
Mortgages, notes and loans payable	\$14,216,160	\$12,430,418	\$12,496,119
Investment in and loans to/from unconsolidated real estate affiliates	38,488	39,506	25,863
Accounts payable and accrued expenses	784,493	655,362	591,023
Dividend payable	172,070	433,961	201,238
Deferred tax liabilities	1,289	3,843	3,664
Tax indemnification liability			
Junior subordinated notes	206,200	206,200	206,200
Warrant liability			
Liabilities held for disposition	58,934		
Total liabilities	\$15,477,634	\$13,769,290	\$13,524,107
Redeemable noncontrolling interests:			
Preferred	157,903	144,060	52,485
Common	129,724	118,667	197,294
Total redeemable noncontrolling interests	287,627	262,727	249,779
Equity:			
Preferred stock	242,042	242,042	242,042
Shareholder's equity	8,028,001	8,393,722	8,184,043
Noncontrolling interests in consolidated real estate affiliates	24,712	33,583	34,175
Noncontrolling interests related to long-term incentive plan common units	13,539	31,382	43,300
Total equity	\$8,308,294	\$8,700,729	\$8,503,560
Total liabilities, redeemable noncontrolling interests and equity	\$24,073,555	\$22,732,746	\$22,277,446

Balance Sheet Ratio Analysis	12/31/2015	12/31/2016	6/30/2017
Net R/E Investments / Total Debt	149.8%	165.2%	163.2%
Debt to Equity	171.1%	142.9%	147.0%
Debt to Total Market Capitalization (including prorata JV debt)	44.1%	45.2%	46.8%
Debt as % of Total Assets	59.1%	54.7%	56.0%
Fixed-rate Debt as % of Total Debt (Prorata Share)	81.0%	80.6%	79.1%
Shareholders' Equity as % of Total Assets	33.3%	36.9%	36.7%

Source: Company reports and Hilliard Lyons' calculations

Valuation

Currently at 13.2x our 2018 FFO per share estimate of \$1.66, GGP is trading at a premium to its peer group (see table below). Excluding CBL from the peer group, due to its lower productivity malls, GGP would be trading at a slight discount to the peer group. **At the current price we believe the shares are fairly valued, and we are maintaining our Neutral rating.**

Regional Mall REITs	Symbol	Price	Current	Yield	Payout Ratio	FFO Per Share			2-Year Exp.	18/17E	Price/FFO	
		8/2/2017	Dividend			2016	2017E	2018	Avg. Growth	Growth	FY 2017E	FY 2018E
Simon Property Group	SPG	\$161.37	\$7.20	4.5%	64.2%	\$10.49	\$11.22	\$12.23	8.3%	9.0%	14.4x	13.2x
Macerich Company	MAC	\$55.55	\$2.84	5.1%	71.9%	\$5.08	\$3.95	\$4.13	-9.4%	4.6%	14.1x	13.5x
Taubman Centers, Inc.	TCO	\$55.64	\$2.50	4.5%	67.4%	\$2.87	\$3.71	\$3.98	19.3%	7.3%	15.0x	14.0x
CBL & Associates Properties	CBL	\$8.41	\$1.06	12.6%	48.2%	\$2.69	\$2.20	\$2.24	-8.4%	1.8%	3.8x	3.8x
Peer Average		\$70.24	\$3.40	6.7%	62.9%	\$5.28	\$5.27	\$5.65	2.5%	5.7%	11.8x	11.1x
S&P 500	.SPX	2,477.57	\$49.10	2.0%	37.6%	\$117.75	\$130.74	\$139.52	9.2%	6.7%	19.0x	17.8x
GGP Inc.	GGP	\$21.91	\$0.88	4.0%	55.3%	\$1.57	\$1.59	\$1.66	2.9%	4.2%	13.8x	13.2x

Note: SPG and CBL are both rated Buy by Hilliard Lyons, and the rest are not rated. SPX figures are EPS, not FFO per share.

Source: NAREIT, HL Estimates, and Thomson Eikon.

Suitability

We assign shares of General Growth Properties a suitability rating of 2 on our scale of 1 - 4 (1=most conservative, 4=most aggressive). Our rating is based on the company's large market cap and what we view as strong balance sheet.

Risks and Considerations

GGP Inc.'s FFO may be impacted by external factors beyond the company's control or by internal factors. We believe these risk factors include, but are not limited to: interest rate risk, a decline in consumer spending, change in consumer spending patterns/trends, an inability to finance acquisitions or developments, development risk, higher construction or supply cost, bankruptcy of tenant(s), and others.

Additional information is available upon request.

Analyst Certification

I, Carol L. Kemple, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid total returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

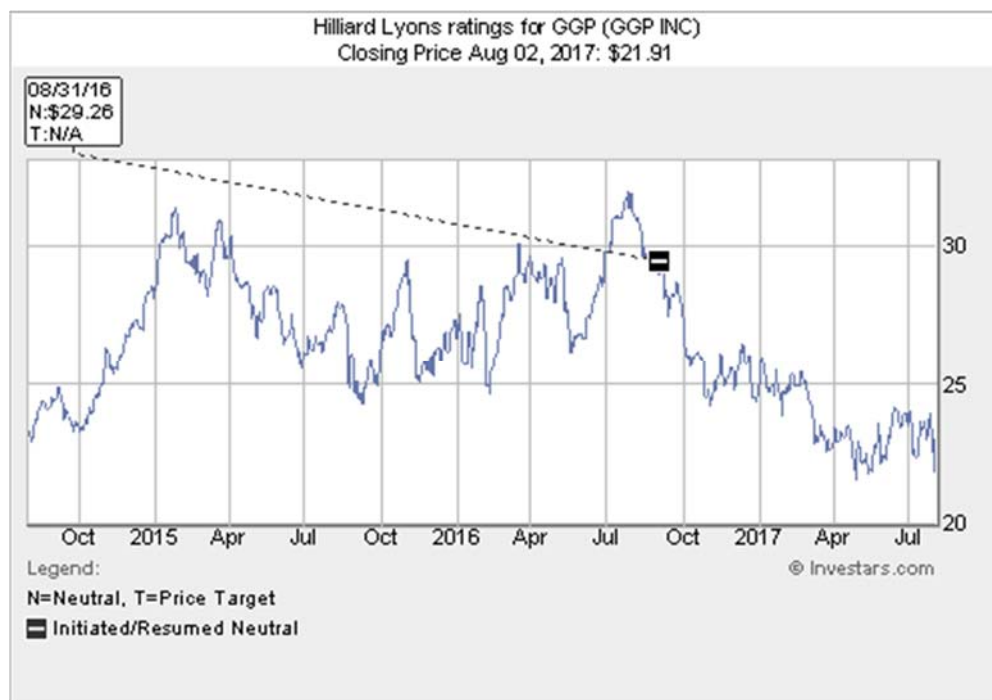
Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

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