

MACERICH CO  
Form 10-K  
February 27, 2009

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2008**

Commission File No. 1-12504

**THE MACERICH COMPANY**

(Exact name of registrant as specified in its charter)

**MARYLAND** **95-4448705**  
(State or other jurisdiction (I.R.S. Employer  
of incorporation or organization) Identification Number)  
**401 Wilshire Boulevard, Suite 700, Santa Monica, California 90401**  
(Address of principal executive office, including zip code)

Registrant's telephone number, including area code **(310) 394-6000**

Securities registered pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock, \$0.01 Par Value	New York Stock Exchange
Preferred Share Purchase Rights	New York Stock Exchange

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act

YES  NO

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act

YES  NO

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 during the preceding 12 months (or for such shorter period that the registrant was required to file such report) and (2) has been subject to such filing requirements for the past 90 days.

YES  NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment on to this Form 10-K.

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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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

YES     NO

The aggregate market value of voting and non-voting common equity held by non-affiliates of the registrant was approximately \$4.5 billion as of the last business day of the registrant's most recent completed second fiscal quarter based upon the price at which the common shares were last sold on that day.

Number of shares outstanding of the registrant's common stock, as of February 13, 2009: **77,033,475 shares**

### **DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the proxy statement for the annual stockholders meeting to be held in 2009 are incorporated by reference into Part III of this Form 10-K

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**PART I**

**IMPORTANT FACTORS RELATED TO FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K of The Macerich Company (the "Company") contains or incorporates by reference statements that constitute forward-looking statements within the meaning of the federal securities laws. Any statements that do not relate to historical or current facts or matters are forward-looking statements. You can identify some of the forward-looking statements by the use of forward-looking words, such as "may," "will," "could," "should," "expects," "anticipates," "intends," "projects," "predicts," "plans," "believes," "seeks," and "estimates" and variations of these words and similar expressions. Statements concerning current conditions may also be forward-looking if they imply a continuation of current conditions. Forward-looking statements appear in a number of places in this Form 10-K and include statements regarding, among other matters:

expectations regarding the Company's growth;

the Company's beliefs regarding its acquisition, redevelopment and development activities and opportunities;

the Company's acquisition and other strategies;

regulatory matters pertaining to compliance with governmental regulations;

the Company's capital expenditure plans and expectations for obtaining capital for expenditures;

the Company's expectations regarding its financial condition or results of operations; and

the Company's expectations for refinancing its indebtedness.

Stockholders are cautioned that any such forward-looking statements are not guarantees of future performance and involve risks, uncertainties and other factors that may cause actual results, performance or achievements of the Company or the industry to differ materially from the Company's future results, performance or achievements, or those of the industry, expressed or implied in such forward-looking statements. You are urged to carefully review the disclosures we make concerning risks and other factors that may affect our business and operating results, including those made in "Item 1A. Risk Factors" of this Annual Report on Form 10-K, as well as our other reports filed with the Securities and Exchange Commission ("SEC"). You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. The Company does not intend, and undertakes no obligation, to update any forward-looking information to reflect events or circumstances after the date of this document or to reflect the occurrence of unanticipated events, unless required by law to do so.

**ITEM 1. BUSINESS**

**General**

The Company is involved in the acquisition, ownership, development, redevelopment, management and leasing of regional and community shopping centers located throughout the United States. The Company is the sole general partner of, and owns a majority of the ownership interests in, The Macerich Partnership, L.P., a Delaware limited partnership (the "Operating Partnership"). As of December 31, 2008, the Operating Partnership owned or had an ownership interest in 72 regional shopping centers and 20 community shopping centers totaling approximately 76 million square feet of gross leasable area ("GLA"). These 92 regional and community shopping centers are referred to hereinafter as the "Centers", unless the context otherwise requires. The Company is a self-administered and self-managed real estate investment trust ("REIT") and conducts all of its operations through the Operating Partnership and the Company's management companies, Macerich Property Management Company, LLC, a single member Delaware limited liability company, Macerich Management Company,



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a California corporation, Westcor Partners, L.L.C., a single member Arizona limited liability company, Macerich Westcor Management LLC, a single member Delaware limited liability company, Westcor Partners of Colorado, LLC, a Colorado limited liability company, MACW Mall Management, Inc., a New York corporation, and MACW Property Management, LLC, a single member New York limited liability company. All seven of the management companies are collectively referred to herein as the "Management Companies."

The Company was organized as a Maryland corporation in September 1993 to continue and expand the shopping center operations of Mace Siegel, Arthur M. Coppola, Dana K. Anderson and Edward C. Coppola (the "principals") and certain of their business associates.

All references to the Company in this Annual Report on Form 10-K include the Company, those entities owned or controlled by the Company and predecessors of the Company, unless the context indicates otherwise.

Financial information regarding the Company for each of the last three fiscal years is contained in the Company's Consolidated Financial Statements included in Item 15. Exhibits and Financial Statement Schedules.

**Recent Developments**

*Acquisitions and Dispositions:*

On January 1, 2008, a subsidiary of the Operating Partnership, at the election of the holders, redeemed its 3.4 million Class A participating convertible preferred units ("PCPUs"). As a result of the redemption, the Company received the 16.32% minority interest in the portion of the Wilmorite portfolio acquired on April 25, 2005 that included Danbury Fair Mall, Freehold Raceway Mall, Great Northern Mall, Rotterdam Square, Shoppingtown Mall, Towne Mall, Tysons Corner Center and Wilton Mall, collectively, referred to as the "Non-Rochester Properties," for a total consideration of \$224.4 million, in exchange for the Company's ownership interest in the portion of the Wilmorite portfolio that consisted of Eastview Mall, Eastview Commons, Greece Ridge Center, Marketplace Mall and Pittsford Plaza, collectively referred to as the "Rochester Properties." Included in the redemption consideration was the assumption of the remaining 16.32% interest in the indebtedness of the Non-Rochester Properties, which had an estimated fair value of \$106.0 million. In addition, the Company also received additional consideration of \$11.8 million, in the form of a note, for certain working capital adjustments, extraordinary capital expenditures, leasing commissions, tenant allowances, and decreases in indebtedness during the Company's period of ownership of the Rochester Properties. The Company recognized a gain of \$99.1 million on the exchange. This exchange is referred to herein as the "Rochester Redemption."

On January 10, 2008, the Company, in a 50/50 joint venture, acquired The Shops at North Bridge, a 680,933 square foot urban shopping center in Chicago, Illinois, for a total purchase price of \$515.0 million. The Company's share of the purchase price was funded by the assumption of a pro rata share of the \$205.0 million fixed rate mortgage on the Center and by borrowings under the Company's line of credit.

On January 31, 2008, the Company purchased a ground leasehold interest in a freestanding Mervyn's store located in Hayward, California. The purchase price of \$13.2 million was funded by cash and borrowings under the Company's line of credit.

On February 29, 2008, the Company purchased a fee simple interest in a freestanding Mervyn's store located in Monrovia, California. The purchase price of \$19.3 million was funded by cash and borrowings under the Company's line of credit.

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On May 20, 2008, the Company purchased fee simple interests in a 161,350 square foot Boscov's department store at Deptford Mall in Deptford, New Jersey. The total purchase price of \$23.5 million was funded by the assumption of the existing \$15.2 million mortgage note on the property and by borrowings under the Company's line of credit.

On June 11, 2008, the Company became a 50% owner in a joint venture that acquired One Scottsdale, which plans to develop a luxury retail and mixed-use property in Scottsdale, Arizona. The Company's share of the purchase price was \$52.5 million, which was funded by borrowings under the Company's line of credit.

On December 19, 2008, the Company sold a fee and/or ground leasehold interest in three freestanding Mervyn's department stores to Pacific Premier Retail Trust, one of the Company's joint ventures, for \$43.4 million, resulting in a gain on sale of assets of \$1.5 million. The Company's pro rata share of the proceeds were used to pay down the Company's line of credit.

#### *Financing Activity:*

On March 1, 2008, the Company paid off the existing loan on Mall of Victor Valley. Subsequently, on May 6, 2008, the Company placed a new \$100.0 million loan on the property that bears interest at LIBOR plus 1.60% and matures on May 6, 2011, with two one-year extension options. The loan proceeds from the new loan were used to pay down the Company's line of credit and for general corporate purposes.

On March 14, 2008, the Company placed a construction loan on Cactus Power Center that provides for borrowings of up to \$101.0 million and bears interest at LIBOR plus a spread of 1.10% to 1.35%, depending on certain conditions. The loan matures on March 14, 2011, with two one-year extension options. The loan proceeds were used to fund development activities on the property.

On May 14, 2008, the Company's joint venture in The Market at Estrella Falls placed a construction loan on the property that allows for total borrowings of up to \$80.0 million. The loan bears interest at LIBOR plus a spread of 1.50% to 1.60%, depending on certain conditions, and matures on June 1, 2011, with two one-year extension options. The loan proceeds were used to fund development activities on the property.

On May 20, 2008, concurrent with the acquisition of the fee simple interest in a freestanding Boscov's department store at Deptford Mall, the Company assumed the existing \$15.8 million loan on the property. The loan bears interest at 6.46% and matures on June 1, 2016. See "Recent Developments Acquisitions and Dispositions."

On June 5, 2008, the Company replaced the existing loan on Westside Pavilion with a new \$175.0 million loan that bears interest at LIBOR plus 2.00% and matures on June 5, 2011, with two one-year extension options. The loan proceeds were used to pay down the Company's line of credit and for general corporate purposes.

On June 13, 2008, the Company placed a construction loan on SanTan Regional Center that allows for total borrowings of up to \$150.0 million. The loan bears interest at LIBOR plus a spread of 2.10% to 2.25%, depending on certain conditions. The loan matures on June 13, 2011, with two one-year extension options. The net loan proceeds were used to fund development activities on the property and pay down the Company's line of credit.

On July 10, 2008, the Company placed a \$165.0 million loan on The Oaks that bears interest at LIBOR plus 1.75% and matures on July 10, 2011, with two one-year extension options. Concurrently, the Company placed a construction loan on the property that allows for total borrowings of up to \$135.0 million, bears interest at LIBOR plus a spread of 1.75% to 2.10%, depending on certain conditions, and matures on July 10, 2011, with two one-year extension options. The loan proceeds from

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the new loans were used to fund development activities at the property, pay down the Company's line of credit and for general corporate purposes.

On July 10, 2008, the Company replaced the existing loan on Fresno Fashion Fair with a new \$170.0 million loan that bears interest at 6.76% and matures on August 1, 2015. The net loan proceeds were used to pay down the Company's line of credit and for general corporate purposes.

On July 31, 2008, the Company's joint venture in Broadway Plaza replaced the existing loan on the property with a new \$150.0 million loan that bears interest at 6.12% and matures on August 15, 2015. The Company used its pro rata share of the net loan proceeds to pay down the Company's line of credit and for general corporate purposes.

On August 11, 2008, the Company paid off the existing loan on South Towne Center. Subsequently, on October 16, 2008, the Company placed a new \$90.0 million loan on the property that bears interest at 6.75% and matures on November 5, 2015. The net loan proceeds were used to pay down the Company's line of credit and for general corporate purposes.

On October 1, 2008, the Company's joint venture in Chandler Festival replaced the existing loan on the property with a new \$29.7 million loan that bears interest at 6.39% and matures on November 1, 2015. The Company used its pro rata share of the net loan proceeds to pay down the Company's line of credit and for general corporate purposes.

On October 1, 2008, the Company's joint venture in Chandler Gateway replaced the existing loan on the property with a new \$18.9 million loan that bears interest at 6.37% and matures on November 1, 2015. The Company used its pro rata share of the net loan proceeds to pay down the Company's line of credit and for general corporate purposes.

On December 10, 2008, Pacific Premier Retail Trust, one of the Company's joint ventures, replaced an existing loan on Washington Square with a new \$250.0 million loan that bears interest at 6.04% and matures on January 1, 2016. The Company used its pro rata share of the net loan proceeds to fund its share of the purchase of fee simple and/or ground leasehold interests in three freestanding Mervyn's stores and to pay down the Company's line of credit and for general corporate purposes.

During the period of October 21, 2008 to December 29, 2008, the Company repurchased and retired \$222.8 million of convertible senior notes ("Senior Notes") for \$122.7 million. This early retirement of debt resulted in a \$95.3 million gain on early extinguishment of debt. The repurchases were funded through additional borrowings under the Company's line of credit.

On February 2, 2009, the Company replaced an existing loan on Queens Center with a new \$130.0 million loan that bears interest at 7.50% and matures on March 1, 2013. The net loan proceeds were used to pay down the Company's line of credit and for general corporate purposes.

In addition, the Company's joint venture has obtained a commitment for a \$62.0 million, five year financing of Redmond Town Center's office buildings at a fixed interest rate of 7.50%. After the closing of the Redmond transaction, the Company will have \$406.0 million of 2009 debt maturities remaining (excluding loans with extensions). The Company also obtained a commitment for a three year loan extension on the existing \$115.0 million loan on Twenty Ninth Street, a Center in Boulder, Colorado at an interest rate of LIBOR plus 3.40%.

*Redevelopment and Development Activity:*

Construction continues on Santa Monica Place, a regional shopping center under development in Santa Monica, California. In September, the Company announced that Bloomingdale's will join Nordstrom. Bloomingdale's will open the first of the store's SoHo concept outside of Manhattan. In addition, the Company has announced deals with 11 retailers and restaurants slated to join the new Santa Monica Place Ed Hardy, Arthur, R.O.C. Republic of Couture, Ilori, Love Culture, Michael



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Brandon, Shuz, restaurants La Sandia, Zengo and Pizza Antica, and gallery Artevo. These 11 strong brands join previously announced restaurants XINO and Osumo Sushi and fashion retailers Kitson LA, BCBG Max Azria, Coach, Lacoste, Joe's Jeans and True Religion, all of which are slated to open in 2010 alongside Bloomingdale's SoHo concept and Nordstrom.

At Scottsdale Fashion Square, construction on an approximately 160,000 square foot expansion continues on schedule toward a Fall 2009 opening. The expansion will be anchored by a 60,000 square foot Barneys New York. In addition, recently signed fashion retailer Ed Hardy, French luxury homewear retailer Arthur and Forever 21 will join previously announced True Religion and restaurants Marcella's and Modern Steak, in the new wing. Recent additions to the Center's interior merchandise mix include Cartier and Bvlgari.

In December 2008, the Company wrote off \$8.7 million of development costs on development projects the Company has determined it will not pursue. In addition, the Company recorded an \$18.8 million impairment charge to reduce its pro rata share of the carrying value of land held for development at a consolidated joint venture.

**The Shopping Center Industry**

*General*

There are several types of retail shopping centers, which are differentiated primarily based on size and marketing strategy. Regional shopping centers generally contain in excess of 400,000 square feet of GLA and are typically anchored by two or more department or large retail stores ("Anchors") and are referred to as "Regional Shopping Centers" or "Malls." Regional Shopping Centers also typically contain numerous diversified retail stores ("Mall Stores"), most of which are national or regional retailers typically located along corridors connecting the Anchors. Community Shopping Centers, also referred to as "strip centers" or "urban villages" or "specialty centers", are retail shopping centers that are designed to attract local or neighborhood customers and are typically anchored by one or more supermarkets, discount department stores and/or drug stores. Community Shopping Centers typically contain 100,000 square feet to 400,000 square feet of GLA. In addition, freestanding retail stores are located along the perimeter of the shopping centers ("Freestanding Stores"). Anchors, Mall and Freestanding Stores and other tenants typically contribute funds for the maintenance of the common areas, property taxes, insurance, advertising and other expenditures related to the operation of the shopping center.

*Regional Shopping Centers*

A Regional Shopping Center draws from its trade area by offering a variety of fashion merchandise, hard goods and services and entertainment, often in an enclosed, climate controlled environment with convenient parking. Regional Shopping Centers provide an array of retail shops and entertainment facilities and often serve as the town center and the preferred gathering place for community, charity, and promotional events.

Regional Shopping Centers have generally provided owners with relatively stable income despite the cyclical nature of the retail business. This stability is due both to the diversity of tenants and to the typical dominance of Regional Shopping Centers in their trade areas.

Regional Shopping Centers have different strategies with regard to price, merchandise offered and tenant mix, and are generally tailored to meet the needs of their trade areas. Anchor tenants are located along common areas in a configuration designed to maximize consumer traffic for the benefit of the Mall Stores. Mall GLA, which generally refers to GLA contiguous to the Anchors for tenants other than Anchors, is leased to a wide variety of smaller retailers. Mall Stores typically account for the majority of the revenues of a Regional Shopping Center.

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**Business of the Company**

*Strategy:*

The Company has a four-pronged business strategy which focuses on the acquisition, leasing and management, redevelopment and development of Regional Shopping Centers.

*Acquisitions.* The Company focuses on well-located, quality regional shopping centers that are, or it believes can be, dominant in their trade area and have strong revenue enhancement potential. The Company subsequently seeks to improve operating performance and returns from these properties through leasing, management and redevelopment. Since its initial public offering, the Company has acquired interests in shopping centers nationwide. The Company believes that it is geographically well positioned to cultivate and maintain ongoing relationships with potential sellers and financial institutions and to act quickly when acquisition opportunities arise. (See "Recent Developments Acquisitions and Dispositions").

*Leasing and Management.* The Company believes that the shopping center business requires specialized skills across a broad array of disciplines for effective and profitable operations. For this reason, the Company has developed a fully integrated real estate organization with in-house acquisition, accounting, development, finance, leasing, legal, marketing, property management and redevelopment expertise. In addition, the Company emphasizes a philosophy of decentralized property management, leasing and marketing performed by on-site professionals. The Company believes that this strategy results in the optimal operation, tenant mix and drawing power of each Center as well as the ability to quickly respond to changing competitive conditions of the Center's trade area.

The Company believes that on-site property managers can most effectively operate the Centers. Each Center's property manager is responsible for overseeing the operations, marketing, maintenance and security functions at the Center. Property managers focus special attention on controlling operating costs, a key element in the profitability of the Centers, and seek to develop strong relationships with and to be responsive to the needs of retailers.

Similarly, the Company generally utilizes on-site and regionally located leasing managers to better understand the market and the community in which a Center is located. The Company continually assesses and fine tunes each Center's tenant mix, identifies and replaces underperforming tenants and seeks to optimize existing tenant sizes and configurations.

On a selective basis, the Company provides property management and leasing services for third parties. The Company currently manages four malls for third party owners on a fee basis. In addition, the Company manages three community centers for a related party.

*Redevelopment.* One of the major components of the Company's growth strategy is its ability to redevelop acquired properties. For this reason, the Company has built a staff of redevelopment professionals who have primary responsibility for identifying redevelopment opportunities that will result in enhanced long-term financial returns and market position for the Centers. The redevelopment professionals oversee the design and construction of the projects in addition to obtaining required governmental approvals. (See "Recent Developments Redevelopment and Development Activity").

*Development.* The Company pursues ground-up development projects on a selective basis. The Company has supplemented its strong acquisition, operations and redevelopment skills with its ground-up development expertise to further increase growth opportunities. (See "Recent Developments Redevelopment and Development Activity").

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*The Centers*

As of December 31, 2008, the Centers consist of 72 Regional Shopping Centers and 20 Community Shopping Centers totaling approximately 76.0 million square feet of GLA. The 72 Regional Shopping Centers in the Company's portfolio average approximately 952,000 square feet of GLA and range in size from 2.2 million square feet of GLA at Tysons Corner Center to 323,505 square feet of GLA at Panorama Mall. The Company's 20 Community Shopping Centers have an average of approximately 238,000 square feet of GLA. As of December 31, 2008, the Centers included 311 Anchors totaling approximately 40.3 million square feet of GLA and approximately 9,000 Mall and Freestanding Stores totaling approximately 35.6 million square feet of GLA.

*Competition*

There are numerous owners and developers of real estate that compete with the Company in its trade areas. There are six other publicly traded mall companies and several large private mall companies, any of which under certain circumstances could compete against the Company for an acquisition, an Anchor or a tenant. In addition, private equity firms compete with the Company in terms of acquisitions. This results in competition for both acquisition of centers and for tenants or Anchors to occupy space. The existence of competing shopping centers could have a material adverse impact on the Company's ability to lease space and on the level of rent that can be achieved. There is also increasing competition from other retail formats and technologies, such as lifestyle centers, power centers, internet shopping and home shopping networks, factory outlet centers, discount shopping clubs and mail-order services that could adversely affect the Company's revenues.

In making leasing decisions, the Company believes that retailers consider the following material factors relating to a center: quality, design and location, including consumer demographics; rental rates; type and quality of Anchors and retailers at the center; and management and operational experience and strategy of the center. The Company believes it is able to compete effectively for retail tenants in its local markets based on these criteria in light of the overall size, quality and diversity of its portfolio of Centers.

*Major Tenants*

The Centers derived approximately 91.7% of their total minimum rents for the year ended December 31, 2008 from Mall and Freestanding Stores. One tenant accounted for approximately 2.4% of minimum rents of the Company, and no other single tenant accounted for more than 2.3% of minimum rents as of December 31, 2008.

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The following tenants (including their subsidiaries) represent the 10 largest tenants in the Company's portfolio (including joint ventures) based upon minimum rents in place as of December 31, 2008:

Tenant	Primary DBA's	Number of Locations in the Portfolio	% of Total Minimum Rents(1)
Gap Inc.	Gap, Banana Republic, Old Navy	97	2.4%
Limited Brands, Inc.	Victoria Secret, Bath and Body	137	2.3%
Foot Locker, Inc.	Footlocker, Champs Sports, Lady Footlocker	145	1.8%
Forever 21, Inc.	Forever 21, XXI Forever	43	1.6%
Abercrombie & Fitch Co.	Abercrombie & Fitch, Abercrombie, Hollister	78	1.6%
AT&T Mobility LLC(1)	AT&T Wireless, Cingular Wireless	32	1.4%
Luxottica Group	Lenscrafters, Sunglass Hut	165	1.3%
American Eagle Outfitters, Inc.	American Eagle Outfitters	66	1.2%
Zale Corporation	Zales, Piercing Pagoda, Gordon's Jewelers	112	1.1%
Signet Group PLC	Kay Jewelers, Weisfield Jewelers	74	1.0%

(1) Includes AT&T Mobility office headquarters located at Redmond Town Center.

#### *Mall and Freestanding Stores*

Mall and Freestanding Store leases generally provide for tenants to pay rent comprised of a base (or "minimum") rent and a percentage rent based on sales. In some cases, tenants pay only minimum rent, and in some cases, tenants pay only percentage rent. Historically, most leases for Mall and Freestanding Stores contain provisions that allow the Centers to recover their costs for maintenance of the common areas, property taxes, insurance, advertising and other expenditures related to the operations of the Center. Since January 2005, the Company generally began entering into leases which require tenants to pay a stated amount for such operating expenses, generally excluding property taxes, regardless of the expenses the Company actually incurs at any Center.

Tenant space of 10,000 square feet and under in the portfolio at December 31, 2008 comprises 69.1% of all Mall and Freestanding Store space. The Company uses tenant spaces of 10,000 square feet and under for comparing rental rate activity. The Company believes that to include space over 10,000 square feet would provide a less meaningful comparison.

When an existing lease expires, the Company is often able to enter into a new lease with a higher base rent component. The average base rent for new Mall and Freestanding Store leases at the consolidated Centers, 10,000 square feet and under, commencing during 2008 was \$42.70 per square foot, or 21.5% higher than the average base rent for all Mall and Freestanding Stores at the consolidated Centers, 10,000 square feet and under, expiring during 2008 of \$35.14 per square foot.

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The following table sets forth for the Centers, the average base rent per square foot of Mall and Freestanding GLA, for tenants 10,000 square feet and under, as of December 31 for each of the past three years:

For the Years Ended December 31,	Average Base Rent Per Square Foot(1)	Avg. Base Rent Per Sq.Ft. on Leases Commencing During the Year(2)	Avg. Base Rent Per Sq. Ft. on Leases Expiring During the Year(3)
<b>Consolidated Centers:</b>			
2008	\$ 41.39	\$ 42.70	\$ 35.14
2007	\$ 38.49	\$ 43.23	\$ 34.21
2006	\$ 37.55	\$ 38.40	\$ 31.92
<b>Joint Venture Centers:</b>			
2008	\$ 42.14	\$ 49.74	\$ 37.61
2007	\$ 38.72	\$ 47.12	\$ 34.87
2006	\$ 37.94	\$ 41.43	\$ 36.19

- (1) Average base rent per square foot is based on Mall and Freestanding Store GLA for spaces, 10,000 square feet and under, occupied as of December 31 for each of the Centers owned by the Company. The leases for Promenade at Casa Grande, SanTan Village Power Center and SanTan Village Regional Center were excluded for 2007 and 2008 due to the Centers being under redevelopment. The leases for The Market at Estrella Falls and Santa Monica Place were excluded for 2008 due to the Centers being under redevelopment.
- (2) The average base rent per square foot on lease signings commencing during the year represents the actual rent to be paid on a per square foot basis during the first twelve months, for tenants 10,000 square feet and under. The leases for Promenade at Casa Grande, SanTan Village Power Center and SanTan Village Regional Center were excluded for 2007 and 2008 due to the Centers being under redevelopment. The leases for The Market at Estrella Falls and Santa Monica Place were excluded for 2008 due to the Centers being under redevelopment.
- (3) The average base rent per square foot on leases expiring during the year represents the final year minimum rent, on a cash basis, for all tenant leases 10,000 square feet and under expiring during the year. The leases for Promenade at Casa Grande, SanTan Village Power Center and SanTan Village Regional Center were excluded for 2007 and 2008 due to the Centers being under redevelopment. The leases for The Market at Estrella Falls and Santa Monica Place were excluded for 2008 due to the Centers being under redevelopment.

#### *Cost of Occupancy*

The Company's management believes that in order to maximize the Company's operating cash flow, the Centers' Mall Store tenants must be able to operate profitably. A major factor contributing to

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tenant profitability is cost of occupancy. The following table summarizes occupancy costs for Mall Store tenants in the Centers as a percentage of total Mall Store sales for the last three years:

	For Years ended December 31,		
	2008	2007	2006
<b>Consolidated Centers:</b>			
Minimum Rents	8.9%	8.0%	8.1%
Percentage Rents	0.4%	0.4%	0.4%
Expense Recoveries(1)	4.4%	3.8%	3.7%
	13.7%	12.2%	12.2%
<b>Joint Venture Centers:</b>			
Minimum Rents	8.2%	7.3%	7.2%
Percentage Rents	0.4%	0.5%	0.6%
Expense Recoveries(1)	3.9%	3.2%	3.1%
	12.5%	11.0%	10.9%

(1) Represents real estate tax and common area maintenance charges.

*Lease Expirations*

The following tables show scheduled lease expirations (for Centers owned as of December 31, 2008) of Mall and Freestanding Stores (10,000 square feet and under) for the next ten years, assuming that none of the tenants exercise renewal options:

**Consolidated Centers:**

Year Ending December 31,	Number of Leases Expiring	Approximate GLA of Leases Expiring(1)	% of Total Leased GLA Represented by Expiring Leases(1)	Ending Base Rent per Square Foot of Expiring Leases(1)
2009	480	959,995	12.31%	\$ 35.49
2010	435	834,841	10.70%	\$ 41.08
2011	433	1,058,341	13.57%	\$ 38.56
2012	328	830,663	10.65%	\$ 38.17
2013	244	531,060	6.81%	\$ 42.66
2014	245	565,878	7.25%	\$ 50.43
2015	251	647,709	8.30%	\$ 50.18
2016	248	661,310	8.48%	\$ 41.69
2017	279	807,575	10.35%	\$ 40.93
2018	207	531,293	6.81%	\$ 43.69

Table of Contents**Joint Venture Centers (at pro rata share):**

<b>Year Ending December 31,</b>	<b>Number of Leases Expiring</b>	<b>Approximate GLA of Leases Expiring(1)</b>	<b>% of Total Leased GLA Represented by Expiring Leases(1)</b>	<b>Ending Base Rent per Square Foot of Expiring Leases(1)</b>
2009	504	520,156	13.0%	\$ 36.65
2010	441	452,190	11.3%	\$ 40.59
2011	393	449,891	11.2%	\$ 39.79
2012	309	319,854	8.0%	\$ 42.28
2013	281	325,495	8.1%	\$ 43.16
2014	232	283,266	7.1%	\$ 44.65
2015	238	295,462	7.4%	\$ 45.66
2016	279	340,179	8.5%	\$ 48.21
2017	291	444,352	11.1%	\$ 43.89
2018	233	394,563	9.8%	\$ 45.29

(1)

The ending base rent per square foot on leases expiring during the period represents the final year minimum rent, on a cash basis, for all tenant leases 10,000 square feet and under expiring during the year. Currently, 53% of leases have provisions for future consumer price increases which are not reflected in ending base rent. Leases for Promenade at Casa Grande, SanTan Village Power Center, SanTan Village Regional Center, Market at Estrella Falls and Santa Monica Place are currently under redevelopment and have been excluded.

*Anchors*

Anchors have traditionally been a major factor in the public's identification with Regional Shopping Centers. Anchors are generally department stores whose merchandise appeals to a broad range of shoppers. Although the Centers receive a smaller percentage of their operating income from Anchors than from Mall and Freestanding Stores, strong Anchors play an important part in maintaining customer traffic and making the Centers desirable locations for Mall and Freestanding Store tenants.

Anchors either own their stores, the land under them and in some cases adjacent parking areas, or enter into long-term leases with an owner at rates that are lower than the rents charged to tenants of Mall and Freestanding Stores. Each Anchor, which owns its own store, and certain Anchors which lease their stores, enter into reciprocal easement agreements with the owner of the Center covering among other things, operational matters, initial construction and future expansion.

Anchors accounted for approximately 8.3% of the Company's total minimum rent for the year ended December 31, 2008.

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The following table identifies each Anchor, each parent company that owns multiple Anchors and the number of square feet owned or leased by each such Anchor or parent company in the Company's portfolio at December 31, 2008:

Name	Number of Anchor Stores	GLA Owned by Anchor	GLA Leased by Anchor	Total GLA Occupied by Anchor
Macy's Inc.(1)				
Macy's	54	5,605,572	3,180,401	8,785,973
Bloomingdale's	1		255,888	255,888
Total	55	5,605,572	3,436,289	9,041,861
Sears Holdings Corporation				
Sears	48	4,462,305	2,079,671	6,541,976
Great Indoors, The	1		131,051	131,051
K-Mart	1		86,479	86,479
Total	50	4,462,305	2,297,201	6,759,506
J.C. Penney	45	2,353,168	3,661,962	6,015,130
Dillard's	24	3,272,584	808,302	4,080,886
Nordstrom(2)	14	699,127	1,648,287	2,347,414
Target	12	1,023,482	564,279	1,587,761
The Bon-Ton Stores, Inc.				
Younkers	6		609,177	609,177
Bon-Ton, The	1		71,222	71,222
Herberger's	4	188,000	214,573	402,573
Total	11	188,000	894,972	1,082,972
Gottschalks(3)	7	252,638	633,242	885,880
Forever 21(4)	7		615,073	615,073
Kohl's(4)	6	239,902	276,664	516,566
Boscov's	3	140,000	336,067	476,067
Wal-Mart	3	371,527	100,709	472,236
Neiman Marcus	3	120,000	321,450	441,450
Home Depot	3		394,932	394,932
Lord & Taylor	3	120,635	199,372	320,007
Burlington Coat Factory	3	186,570	74,585	261,155
Von Maur	3	186,686	59,563	246,249
Dick's Sporting Goods	3		257,241	257,241
Belk, Inc.				
Belk	3		200,925	200,925
La Curacao	1	164,656		164,656
Costco(5)	1		147,652	147,652
Barneys New York(6)	2		141,398	141,398
Lowe's	1	135,197		135,197
Best Buy	2	129,441		129,441
Saks Fifth Avenue	1		92,000	92,000
L.L. Bean	1		75,778	75,778
Richman Gordman 1/2 Price	1		60,000	60,000
Sports Authority	1		52,250	52,250
Bealls	1		40,000	40,000
Vacant Anchors(7)	11		925,153	925,153
Total	281	19,651,490	18,315,346	37,966,836
Forever 21 at centers not owned by Macerich(4)	5		395,858	395,858
Kohl's at centers not owned by Macerich(4)	8		653,580	653,580
Vacant Anchors at centers not owned by Macerich(4)	17		1,324,451	1,324,451



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Total	311	19,651,490	20,689,235	40,340,725
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- (1) Macy's is scheduled to open a 120,000 square foot store at SanTan Village Regional Mall in March 2009. Macy's at Santa Monica Place plans to convert to a Bloomingdale's in 2010.
- (2) Nordstrom is scheduled to open a 122,000 square foot store at Santa Monica Place in 2010.

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- (3) Gottschalks filed Chapter 11 bankruptcy in January 2009. All stores are currently open and operating.
- (4) Mervyn's filed bankruptcy on July 29, 2008. One of the Mervyn's locations owned by the Company closed in July 2008, six closed in November 2008 and the remaining Mervyn's locations closed in December 2008. Of the 45 former Mervyn's in the Company's portfolio, 12 are now leased to Forever 21 and 11 to Kohl's. The Forever 21 stores are scheduled to open in Spring 2009. The Kohl's stores are scheduled to open in Fall 2009. The Company also had three other Kohl's opened and operating at December 31, 2008.
- (5) Costco opened a 160,000 square foot store at Lakewood Center in February 2009.
- (6) Barneys New York is scheduled to open a 60,000 square foot store at Scottsdale Fashion Square in Fall 2009.
- (7) The Company is contemplating various replacement tenants and/or redevelopment opportunities for these vacant sites.

### **Environmental Matters**

Each of the Centers has been subjected to an Environmental Site Assessment Phase I (which involves review of publicly available information and general property inspections, but does not involve soil sampling or ground water analysis) completed by an environmental consultant.

Based on these assessments, and on other information, the Company is aware of the following environmental issues that may reasonably result in costs associated with future investigation or remediation, or in environmental liability:

*Asbestos.* The Company has conducted asbestos-containing materials ("ACM") surveys at various locations within the Centers. The surveys indicate that ACMs are present or suspected in certain areas, primarily vinyl floor tiles, mastics, roofing materials, drywall tape and joint compounds. The identified ACMs are generally non-friable, in good condition, and possess low probabilities for disturbance. At certain Centers where ACMs are present or suspected, however, some ACMs have been or may be classified as "friable," and ultimately may require removal under certain conditions. The Company has developed and implemented an operations and maintenance ("O&M") plan to manage ACMs in place.

*Underground Storage Tanks.* Underground storage tanks ("USTs") are or were present at certain of the Centers, often in connection with tenant operations at gasoline stations or automotive tire, battery and accessory service centers located at such Centers. USTs also may be or have been present at properties neighboring certain Centers. Some of these tanks have either leaked or are suspected to have leaked. Where leakage has occurred, investigation, remediation, and monitoring costs may be incurred by the Company if responsible current or former tenants, or other responsible parties, are unavailable to pay such costs.

*Chlorinated Hydrocarbons.* The presence of chlorinated hydrocarbons such as perchloroethylene ("PCE") and its degradation byproducts have been detected at certain of the Centers, often in connection with tenant dry cleaning operations. Where PCE has been detected, the Company may incur investigation, remediation and monitoring costs if responsible current or former tenants, or other responsible parties, are unavailable to pay such costs.

See "Risk Factors Possible environmental liabilities could adversely affect us."

### **Insurance**

Each of the Centers has comprehensive liability, fire, extended coverage and rental loss insurance with insured limits customarily carried for similar properties. The Company does not insure certain types of losses (such as losses from wars) because they are either uninsurable or not economically insurable. In addition, while the Company or the relevant joint venture, as applicable, further carries specific earthquake insurance on the Centers located in California, the policies are subject to a deductible equal to 5% of the total insured value of each Center, a \$100,000 per occurrence minimum and a combined annual aggregate loss limit of \$150 million on these Centers. The Company or the



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relevant joint venture, as applicable, carries specific earthquake insurance on the Centers located in the Pacific Northwest. However, the policies are subject to a deductible equal to 2% of the total insured value of each Center, a \$50,000 per occurrence minimum and a combined annual aggregate loss limit of \$200 million on these Centers. While the Company or the relevant joint venture also carries terrorism insurance on the Centers, the policies are subject to a \$50,000 deductible and a combined annual aggregate loss of \$800 million. Each Center has environmental insurance covering eligible third-party losses, remediation and non-owned disposal sites, subject to a \$100,000 deductible and a \$20 million five-year aggregate limit. Some environmental losses are not covered by this insurance because they are uninsurable or not economically insurable. Furthermore, the Company carries title insurance on substantially all of the Centers for less than their full value.

**Qualification as a Real Estate Investment Trust**

The Company elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its first taxable year ended December 31, 1994, and intends to conduct its operations so as to continue to qualify as a REIT under the Code. As a REIT, the Company generally will not be subject to federal and state income taxes on its net taxable income that it currently distributes to stockholders. Qualification and taxation as a REIT depends on the Company's ability to meet certain dividend distribution tests, share ownership requirements and various qualification tests prescribed in the Code.

**Employees**

As of December 31, 2008, the Company and the Management Companies had approximately 3,000 regular and temporary employees, including executive officers (10), personnel in the areas of acquisitions and business development (44), property management/marketing (506), leasing (203), redevelopment/development (92), financial services (302) and legal affairs (66). In addition, in an effort to minimize operating costs, the Company generally maintains its own security and guest services staff (1,760) and in some cases maintenance staff (17). Unions represent twenty-two of these employees. The Company primarily engages a third party to handle maintenance at the Centers. The Company believes that relations with its employees are good.

**Seasonality**

For a discussion of the extent to which the Company's business may be seasonal, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Overview and Summary Seasonality."

**Available Information; Website Disclosure; Corporate Governance Documents**

The Company's corporate website address is [www.macerich.com](http://www.macerich.com). The Company makes available free-of-charge through this website its reports on Forms 10-K, 10-Q and 8-K and all amendments thereto, as soon as reasonably practicable after the reports have been filed with, or furnished to, the Securities and Exchange Commission. These reports are available under the heading "Investing SEC Filings", through a free hyperlink to a third-party service. Information provided on our website is not incorporated by reference into this Form 10-K.

The following documents relating to Corporate Governance are available on the Company's website at [www.macerich.com](http://www.macerich.com) under "Investing Corporate Governance":

- Guidelines on Corporate Governance
- Code of Business Conduct and Ethics
- Code of Ethics for CEO and Senior Financial Officers
- Audit Committee Charter
- Compensation Committee Charter
- Executive Committee Charter
- Nominating and Corporate Governance Committee Charter

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You may also request copies of any of these documents by writing to:

Attention: Corporate Secretary  
The Macerich Company  
401 Wilshire Blvd., Suite 700  
Santa Monica, CA 90401

**Certifications**

The Company submitted a Section 303A.12(a) CEO Certification to the New York Stock Exchange last year. In addition, the Company filed with the Securities and Exchange Commission the CEO/CFO certification required under Section 302 of the Sarbanes-Oxley Act and it is included as Exhibit 31 hereto.

**ITEM 1A. RISK FACTORS**

*The following factors, among others, could cause our actual results to differ materially from those contained in forward-looking statements made in this Annual Report on Form 10-K and presented elsewhere by our management from time to time. These factors, among others, may have a material adverse effect on our business, financial condition, operating results and cash flows, and you should carefully consider them. It is not possible to predict or identify all such factors. You should not consider this list to be a complete statement of all potential risks or uncertainties and we may update them in our future periodic reports.*

**We invest primarily in shopping centers, which are subject to a number of significant risks that are beyond our control.**

Real property investments are subject to varying degrees of risk that may affect the ability of our Centers to generate sufficient revenues to meet operating and other expenses, including debt service, lease payments, capital expenditures and tenant improvements, and to make distributions to us and our stockholders. Centers wholly owned by us are referred to as "Wholly Owned Centers" and Centers that are partly but not wholly owned by us are referred to as "Joint Venture Centers." A number of factors may decrease the income generated by the Centers, including:

the national economic climate (including the current recession and constrained capital and credit markets);

the regional and local economy (which may be negatively impacted by rising unemployment, declining real estate values, increased foreclosures, higher taxes, plant closings, industry slowdowns, union activity, adverse weather conditions, natural disasters, terrorist activities and other factors);

local real estate conditions (such as an oversupply of, or a reduction in demand for, retail space or retail goods, decreases in rental rates, declining real estate values and the availability and creditworthiness of current and prospective tenants);

levels of consumer spending, consumer confidence, and seasonal spending (especially during the holiday season when many retailers generate a disproportionate amount of their annual profits);

perceptions by retailers or shoppers of the safety, convenience and attractiveness of a Center; and

increased costs of maintenance, insurance and operations (including real estate taxes).

Income from shopping center properties and shopping center values are also affected by applicable laws and regulations, including tax, environmental, safety and zoning laws.

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**Current economic conditions, including recent volatility in the capital and credit markets, could harm our business, results of operations and financial condition.**

The United States is in the midst of an economic recession with the capital and credit markets experiencing extreme volatility and disruption. The current economic environment has been affected by dramatic declines in the stock and housing markets, increases in foreclosures, unemployment and living costs as well as limited access to credit. This deteriorating economic situation has impacted and is expected to continue to impact consumer spending levels, which adversely impacts the operating results of our tenants. If current levels of market volatility continue or worsen, our tenants may also have difficulties obtaining capital at adequate or historical levels to finance their ongoing business and operations. These events could impact our tenants' ability to meet their lease obligations due to poor operating results, lack of liquidity, bankruptcy or other reasons. Our ability to lease space and negotiate rents at advantageous rates could also be adversely affected in this type of economic environment and more tenants may seek rent relief. Any of these events could harm our business, results of operations and financial condition.

**Some of our Centers are geographically concentrated and, as a result, are sensitive to local economic and real estate conditions.**

A significant percentage of our Centers are located in California and Arizona and eight Centers in the aggregate are located in New York, New Jersey and Connecticut. Many of these states have been more adversely affected by weak economic and real estate conditions. To the extent that weak economic or real estate conditions, including as a result of the factors described in the preceding risk factors, or other factors continue to affect or affect California, Arizona, New York, New Jersey or Connecticut (or their respective regions) more severely than other areas of the country, our financial performance could be negatively impacted.

**We are in a competitive business.**

There are numerous owners and developers of real estate that compete with us in our trade areas. There are six other publicly traded mall companies and several large private mall companies, any of which under certain circumstances could compete against us for an acquisition of an Anchor or a tenant. In addition, private equity firms compete with us in terms of acquisitions. This results in competition for both acquisition of centers and for tenants or Anchors to occupy space. The existence of competing shopping centers could have a material adverse impact on our ability to lease space and on the level of rents that can be achieved. There is also increasing competition from other retail formats and technologies, such as lifestyle centers, power centers, internet shopping and home shopping networks, factory outlet centers, discount shopping clubs and mail-order services that could adversely affect our revenues.

**Our Centers depend on tenants to generate rental revenues.**

Our revenues and funds available for distribution will be reduced if:

a significant number of our tenants are unable (due to poor operating results, capital constraints, bankruptcy, terrorist activities or other reasons) to meet their obligations;

we are unable to lease a significant amount of space in the Centers on economically favorable terms; or

for any other reason, we are unable to collect a significant amount of rental payments.

A decision by an Anchor, or other significant tenant to cease operations at a Center could also have an adverse effect on our financial condition. The closing of an Anchor or other significant tenant may allow other Anchors and/or other tenants to terminate their leases, seek rent relief and/or cease

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operating their stores at the Center or otherwise adversely affect occupancy at the Center. In addition, Anchors and/or tenants at one or more Centers might terminate their leases as a result of mergers, acquisitions, consolidations, dispositions or bankruptcies in the retail industry. The bankruptcy and/or closure of retail stores, or sale of an Anchor or store to a less desirable retailer, may reduce occupancy levels, customer traffic and rental income, or otherwise adversely affect our financial performance. Furthermore, if the store sales of retailers operating in the Centers decline sufficiently, tenants might be unable to pay their minimum rents or expense recovery charges. In the event of a default by a lessee, the affected Center may experience delays and costs in enforcing its rights as lessor.

Given current economic conditions, we believe there is an increased risk that store sales of Anchors and/or tenants operating in our Centers may decrease in future periods, which may negatively affect our Anchors' and/or tenants' ability to satisfy their lease obligations and may increase the possibility of consolidations, dispositions or bankruptcies of our tenants and/or closure of their stores. By way of example, in July 2008, Mervyn's filed for bankruptcy protection and announced in October its plans to liquidate all merchandise, auction its store leases and wind down its business. We have 45 Mervyn's stores in our portfolio. We own the ground leasehold and/or fee simple interest in 44 of those stores and the remaining store is owned by a third party but is located at one of our Centers. (See "Management's Discussion and Analysis of Financial Condition and Results of Operations Management's Overview and Summary Mervyn's").

**Our acquisition and real estate development strategies may not be successful.**

Our historical growth in revenues, net income and funds from operations has been closely tied to the acquisition and redevelopment of shopping centers. Many factors, including the availability and cost of capital, our total amount of debt outstanding, our ability to obtain financing on attractive terms, if at all, interest rates and the availability of attractive acquisition targets, among others, will affect our ability to acquire and redevelop additional properties in the future. We may not be successful in pursuing acquisition opportunities, and newly acquired properties may not perform as well as expected. Expenses arising from our efforts to complete acquisitions, redevelop properties or increase our market penetration may have a material adverse effect on our business, financial condition and results of operations. We face competition for acquisitions primarily from other REITs, as well as from private real estate companies and financial buyers. Some of our competitors have greater financial and other resources. Increased competition for shopping center acquisitions may impact adversely our ability to acquire additional properties on favorable terms. We cannot guarantee that we will be able to implement our growth strategy successfully or manage our expanded operations effectively and profitably.

We may not be able to achieve the anticipated financial and operating results from newly acquired assets. Some of the factors that could affect anticipated results are:

our ability to integrate and manage new properties, including increasing occupancy rates and rents at such properties;

the disposal of non-core assets within an expected time frame; and

our ability to raise long-term financing to implement a capital structure at a cost of capital consistent with our business strategy.

Our business strategy also includes the selective development and construction of retail properties. Any development, redevelopment and construction activities that we may undertake will be subject to the risks of real estate development, including lack of financing, construction delays, environmental requirements, budget overruns, sunk costs and lease-up. Furthermore, occupancy rates and rents at a newly completed property may not be sufficient to make the property profitable. Real estate development activities are also subject to risks relating to the inability to obtain, or delays in obtaining, all necessary zoning, land-use, building, and occupancy and other required governmental permits and

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authorizations. If any of the above events occur, our ability to pay dividends to our stockholders and service our indebtedness could be adversely affected.

**We may be unable to sell properties quickly because real estate investments are relatively illiquid.**

Investments in real estate are relatively illiquid, which limits our ability to adjust our portfolio in response to changes in economic or other conditions. Moreover, there are some limitations under federal income tax laws applicable to REITs that limit our ability to sell assets. In addition, because our properties are generally mortgaged to secure our debts, we may not be able to obtain a release of a lien on a mortgaged property without the payment of the associated debt and/or a substantial prepayment penalty, which restricts our ability to dispose of a property, even though the sale might otherwise be desirable. Furthermore, the number of prospective buyers interested in purchasing shopping centers is limited. Therefore, if we want to sell one or more of our Centers, we may not be able to dispose of it in the desired time period and may receive less consideration than we originally invested in the Center.

**We have substantial debt that could affect our future operations.**

Our total outstanding loan indebtedness at December 31, 2008 was \$8.0 billion (which includes \$2.3 billion of unsecured debt and \$2.0 billion of our pro rata share of joint venture debt). Assuming the closing of our current loan commitment, approximately \$406 million of such indebtedness matures in 2009 (excluding loans with extensions). As a result of this substantial indebtedness, we are required to use a material portion of our cash flow to service principal and interest on our debt, which limits the cash flow available for other business opportunities. In addition, we are subject to the risks normally associated with debt financing, including the risk that our cash flow from operations will be insufficient to meet required debt service and that rising interest rates could adversely affect our debt service costs. A majority of our Centers are mortgaged to secure payment of indebtedness, and if income from the Center is insufficient to pay that indebtedness, the Center could be foreclosed upon by the mortgagee resulting in a loss of income and a decline in our total asset value.

**We are obligated to comply with financial and other covenants that could affect our operating activities.**

Our unsecured credit facilities contain financial covenants, including interest coverage requirements, as well as limitations on our ability to incur debt, make dividend payments and make certain acquisitions. These covenants may restrict our ability to pursue certain business initiatives or certain transactions that might otherwise be advantageous. In addition, failure to meet certain of these financial covenants could cause an event of default under and/or accelerate some or all of such indebtedness which could have a material adverse effect on us.

**We depend on external financings for our growth and ongoing debt service requirements.**

We depend primarily on external financings, principally debt financings, to fund the growth of our business and to ensure that we can meet ongoing maturities of our outstanding debt. Our access to financing depends on the willingness of banks, lenders and other institutions to lend to us and conditions in the capital markets in general. Current turmoil in the capital and credit markets has significantly limited access to debt and equity financing for many companies. We cannot assure you that we will be able to obtain the financing we need for future growth or to meet our debt service as obligations mature, or that the financing will be available to us on acceptable terms, or at all. Any such refinancing could also impose more restrictive terms.



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**Inflation may adversely affect our financial condition and results of operations.**

If inflation increases in the future, we may experience any or all of the following:

Difficulty in replacing or renewing expiring leases with new leases at higher rents;

Decreasing tenant sales as a result of decreased consumer spending which could adversely affect the ability of our tenants to meet their rent obligations and/or result in lower percentage rents; and

An inability to receive reimbursement from our tenants for their share of certain operating expenses, including common area maintenance, real estate taxes and insurance.

**Certain individuals have substantial influence over the management of both us and the Operating Partnership, which may create conflicts of interest.**

Under the limited partnership agreement of the Operating Partnership, we, as the sole general partner, are responsible for the management of the Operating Partnership's business and affairs. Three of the principals serve as an executive officer and each principal is a member of our board of directors. Accordingly, these principals have substantial influence over our management and the management of the Operating Partnership.

**The tax consequences of the sale of some of the Centers and certain holdings of the principals may create conflicts of interest.**

The principals will experience negative tax consequences if some of the Centers are sold. As a result, the principals may not favor a sale of these Centers even though such a sale may benefit our other stockholders. In addition, the principals may have different interests than our stockholders because they are significant holders of the Operating Partnership.

**If we were to fail to qualify as a REIT, we will have reduced funds available for distributions to our stockholders.**

We believe that we currently qualify as a REIT. No assurance can be given that we will remain qualified as a REIT. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial or administrative interpretations. The complexity of these provisions and of the applicable income tax regulations is greater in the case of a REIT structure like ours that holds assets in partnership form. The determination of various factual matters and circumstances not entirely within our control, including determinations by our partners in the Joint Venture Centers, may affect our continued qualification as a REIT. In addition, legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to our qualification as a REIT or the U.S. federal income tax consequences of that qualification.

If in any taxable year we were to fail to qualify as a REIT, we will suffer the following negative results:

we will not be allowed a deduction for distributions to stockholders in computing our taxable income; and

we will be subject to U.S. federal income tax on our taxable income at regular corporate rates.

In addition, if we were to lose our REIT status, we will be prohibited from qualifying as a REIT for the four taxable years following the year during which the qualification was lost, absent relief under statutory provisions. As a result, net income and the funds available for distributions to our stockholders would be reduced for at least five years and the fair market value of our shares could be

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materially adversely affected. Furthermore, the Internal Revenue Service could challenge our REIT status for past periods, which if successful could result in us owing a material amount of tax for prior periods. It is possible that future economic, market, legal, tax or other considerations might cause our board of directors to revoke our REIT election.

Even if we remain qualified as a REIT, we might face other tax liabilities that reduce our cash flow. Further, we might be subject to federal, state and local taxes on our income and property. Any of these taxes would decrease cash available for distributions to stockholders.

**Complying with REIT requirements might cause us to forego otherwise attractive opportunities.**

In order to qualify as a REIT for U.S. federal income tax purposes, we must satisfy tests concerning, among other things, our sources of income, the nature of our assets, the amounts we distribute to our stockholders and the ownership of our stock. We may also be required to make distributions to our stockholders at disadvantageous times or when we do not have funds readily available for distribution. Thus, compliance with REIT requirements may cause us to forego opportunities we would otherwise pursue.

In addition, the REIT provisions of the Internal Revenue Code impose a 100% tax on income from "prohibited transactions." Prohibited transactions generally include sales of assets that constitute inventory or other property held for sale in the ordinary course of business, other than foreclosure property. This 100% tax could impact our desire to sell assets and other investments at otherwise opportune times if we believe such sales could be considered a prohibited transaction.

**Complying with REIT requirements may force us to borrow or take other measures to make distributions to our stockholders.**

As a REIT, we generally must distribute 90% of our annual taxable income (subject to certain adjustments) to our stockholders. From time to time, we might generate taxable income greater than our net income for financial reporting purposes, or our taxable income might be greater than our cash flow available for distributions to our stockholders. If we do not have other funds available in these situations, we might be unable to distribute 90% of our taxable income as required by the REIT rules. In that case, we would need to borrow funds, sell a portion of our investments (potentially at disadvantageous prices), in certain limited cases distribute a combination of cash and stock, (at our stockholders' election but subject to an aggregate cash limit established by the Company) or find another alternative source of funds. These alternatives could increase our costs or reduce our equity and reduce amounts for investments.

**Outside partners in Joint Venture Centers result in additional risks to our stockholders.**

We own partial interests in property partnerships that own 44 Joint Venture Centers as well as fee title to a site that is ground leased to a property partnership that owns a Joint Venture Center and several development sites. We may acquire partial interests in additional properties through joint venture arrangements. Investments in Centers that are not Wholly Owned Centers involve risks different from those of investments in Wholly Owned Centers.

We may have fiduciary responsibilities to our partners that could affect decisions concerning the Joint Venture Centers. Third parties may share control of major decisions relating to the Joint Venture Centers, including decisions with respect to sales, refinancings and the timing and amount of additional capital contributions, as well as decisions that could have an adverse impact on our status. For example, we may lose our management and other rights relating to the Joint Venture Centers if:

we fail to contribute our share of additional capital needed by the property partnerships;

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we default under a partnership agreement for a property partnership or other agreements relating to the property partnerships or the Joint Venture Centers; or

with respect to certain of the Joint Venture Centers, if certain designated key employees no longer are employed in the designated positions.

In addition, some of our outside partners control the day-to-day operations of eight Joint Venture Centers (NorthPark Center, West Acres Center, Eastland Mall, Granite Run Mall, Lake Square Mall, NorthPark Mall, South Park Mall and Valley Mall). We, therefore, do not control cash distributions from these Centers, and the lack of cash distributions from these Centers could jeopardize our ability to maintain our qualification as a REIT. Furthermore, certain Joint Venture Centers have debt that could become recourse debt to us if the Joint Venture Center is unable to discharge such debt obligation.

**Our holding company structure makes us dependent on distributions from the Operating Partnership.**

Because we conduct our operations through the Operating Partnership, our ability to service our debt obligations and pay dividends to our stockholders is strictly dependent upon the earnings and cash flows of the Operating Partnership and the ability of the Operating Partnership to make distributions to us. Under the Delaware Revised Uniform Limited Partnership Act, the Operating Partnership is prohibited from making any distribution to us to the extent that at the time of the distribution, after giving effect to the distribution, all liabilities of the Operating Partnership (other than some non-recourse liabilities and some liabilities to the partners) exceed the fair value of the assets of the Operating Partnership. An inability to make cash distributions from the Operating Partnership could jeopardize our ability to maintain qualification as a REIT.

**Possible environmental liabilities could adversely affect us.**

Under various federal, state and local environmental laws, ordinances and regulations, a current or previous owner or operator of real property may be liable for the costs of removal or remediation of hazardous or toxic substances on, under or in that real property. These laws often impose liability whether or not the owner or operator knew of, or was responsible for, the presence of hazardous or toxic substances. The costs of investigation, removal or remediation of hazardous or toxic substances may be substantial. In addition, the presence of hazardous or toxic substances, or the failure to remedy environmental hazards properly, may adversely affect the owner's or operator's ability to sell or rent affected real property or to borrow money using affected real property as collateral.

Persons or entities that arrange for the disposal or treatment of hazardous or toxic substances may also be liable for the costs of removal or remediation of hazardous or toxic substances at the disposal or treatment facility, whether or not that facility is owned or operated by the person or entity arranging for the disposal or treatment of hazardous or toxic substances. Laws exist that impose liability for release of ACMs into the air, and third parties may seek recovery from owners or operators of real property for personal injury associated with exposure to ACMs. In connection with our ownership, operation, management, development and redevelopment of the Centers, or any other centers or properties we acquire in the future, we may be potentially liable under these laws and may incur costs in responding to these liabilities.

**Uninsured losses could adversely affect our financial condition.**

Each of our Centers has comprehensive liability, fire, extended coverage and rental loss insurance with insured limits customarily carried for similar properties. We do not insure certain types of losses (such as losses from wars), because they are either uninsurable or not economically insurable. In addition, while we or the relevant joint venture, as applicable, carries specific earthquake insurance on the Centers located in California, the policies are subject to a deductible equal to 5% of the total

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insured value of each Center, a \$100,000 per occurrence minimum and a combined annual aggregate loss limit of \$150 million on these Centers. We or the relevant joint venture, as applicable, carries specific earthquake insurance on the Centers located in the Pacific Northwest. However, the policies are subject to a deductible equal to 2% of the total insured value of each Center, a \$50,000 per occurrence minimum and a combined annual aggregate loss limit of \$200 million on these Centers. While we or the relevant joint venture also carries terrorism insurance on the Centers, the policies are subject to a \$50,000 deductible and a combined annual aggregate loss of \$800 million. Each Center has environmental insurance covering eligible third-party losses, remediation and non-owned disposal sites, subject to a \$100,000 deductible and a \$20 million five-year aggregate limit. Some environmental losses are not covered by this insurance because they are uninsurable or not economically insurable. Furthermore, we carry title insurance on substantially all of the Centers for less than their full value.

**An ownership limit and certain anti-takeover defenses could inhibit a change of control or reduce the value of our common stock.**

*The Ownership Limit.* In order for us to maintain our qualification as a REIT, not more than 50% in value of our outstanding stock (after taking into account options to acquire stock) may be owned, directly or indirectly, by five or fewer individuals (as defined in the Internal Revenue Code to include some entities that would not ordinarily be considered "individuals") during the last half of a taxable year. Our Charter restricts ownership of more than 5% (the "Ownership Limit") of the lesser of the number or value of our outstanding shares of stock by any single stockholder or a group of stockholders (with limited exceptions for some holders of limited partnership interests in the Operating Partnership, and their respective families and affiliated entities, including all four principals). In addition to enhancing preservation of our status as a REIT, the Ownership Limit may:

have the effect of delaying, deferring or preventing a change in control of us or other transaction without the approval of our board of directors, even if the change in control or other transaction is in the best interest of our stockholders; and

limit the opportunity for our stockholders to receive a premium for their common stock or preferred stock that they might otherwise receive if an investor were attempting to acquire a block of stock in excess of the Ownership Limit or otherwise effect a change in control of us.

Our board of directors, in its sole discretion, may waive or modify (subject to limitations) the Ownership Limit with respect to one or more of our stockholders, if it is satisfied that ownership in excess of this limit will not jeopardize our status as a REIT.

*Selected Provisions of our Charter and Bylaws.* Some of the provisions of our Charter and bylaws may have the effect of delaying, deferring or preventing a third party from making an acquisition proposal for us and may inhibit a change in control that some, or a majority, of our stockholders might believe to be in their best interest or that could give our stockholders the opportunity to realize a premium over the then-prevailing market prices for our shares. These provisions include the following:

a staggered board of directors (which will be fully declassified in 2011) and limitations on the removal of directors, which may make the replacement of incumbent directors more time-consuming and difficult;

advance notice requirements for stockholder nominations of directors and stockholder proposals to be considered at stockholder meetings;

the obligation of the directors to consider a variety of factors (in addition to maximizing stockholder value) with respect to a proposed business combination or other change of control transaction;

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the authority of the directors to classify or reclassify unissued shares and issue one or more series of common stock or preferred stock;

the authority to create and issue rights entitling the holders thereof to purchase shares of stock or other securities or property from us; and

limitations on the amendment of our Charter and bylaws, the dissolution or change in control of us, and the liability of our directors and officers.

*Selected Provisions of Maryland Law.* The Maryland General Corporation Law prohibits business combinations between a Maryland corporation and an interested stockholder (which includes any person who beneficially holds 10% or more of the voting power of the corporation's outstanding voting stock) or its affiliates for five years following the most recent date on which the interested stockholder became an interested stockholder and, after the five-year period, requires the recommendation of the board of directors and two super-majority stockholder votes to approve a business combination unless the stockholders receive a minimum price determined by the statute. As permitted by Maryland law, our Charter exempts from these provisions any business combination between us and the principals and their respective affiliates and related persons. Maryland law also allows the board of directors to exempt particular business combinations before the interested stockholder becomes an interested stockholder. Furthermore, a person is not an interested stockholder if the transaction by which he or she would otherwise have become an interested stockholder is approved in advance by the board of directors.

The Maryland General Corporation Law also provides that the acquirer of certain levels of voting power in electing directors of a Maryland corporation (one-tenth or more but less than one-third, one-third or more but less than a majority and a majority or more) is not entitled to vote the shares in excess of the applicable threshold, unless voting rights for the shares are approved by holders of two thirds of the disinterested shares or unless the acquisition of the shares has been specifically or generally approved or exempted from the statute by a provision in our Charter or bylaws adopted before the acquisition of the shares. Our Charter exempts from these provisions voting rights of shares owned or acquired by the principals and their respective affiliates and related persons. Our bylaws also contain a provision exempting from this statute any acquisition by any person of shares of our common stock. There can be no assurance that this bylaw will not be amended or eliminated in the future. The Maryland General Corporation Law and our Charter also contain supermajority voting requirements with respect to our ability to amend our Charter, dissolve, merge, or sell all or substantially all of our assets.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None

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**ITEM 2. PROPERTIES**

The following table sets forth certain information regarding the Centers and other locations that are wholly-owned or partly owned by the Company:

**Company's  
Ownership(1)**