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by ING Clarion Capital Loan Services LLC
as Special Servicer

UNITED STATES BANKRUPTCY COURT
SOUTHERN DISTRICT OF NEW YORK

In re:	)	
	)	**Chapter 11**
	)	
GENERAL GROWTH PROPERTIES, INC., *et al.*	)	**Case No. 09-11977 (ALG)**
	)	
	)	**(Jointly Administered)**
Debtors.	)	

EXPERT REPORT OF DOUGAL M. CASEY

1. My name is Dougal ("Doug") M. Casey. I have been retained by ING Clarion Capital Loan Services LLC ("ING Clarion) to provide expert opinion testimony in connection with issues that may be pertinent to its currently pending motion to dismiss the chapter 11 filings of the following debtors (1) Bakersfield Mall, LLC and RASCAP Realty, Ltd., borrowers on

loans secured by a shopping mall commonly known as Valley Plaza Shopping Center; (2) Visalia Mall, L.P., the borrower on a loan secured by a shopping mall known as Visalia Mall; (3) GGP-Tucson Mall L.L.C., the borrower on a loan secured by a shopping mall known as Tucson Mall; (4) Lancaster Trust, the borrower on a loan secured by a shopping mall known as Park City Mall; (5) HO Retail Properties II Limited Partnership, the borrower on a loan secured by a shopping mall known as Washington Park Mall; (6) RS Properties, Inc., the borrower on a loan secured by a shopping mall known as Regency Square Mall; (7) Stonestown Shopping Center L.P., the borrower on loans secured by a shopping mall known as Stonestown Galleria; and (8) Fashion Place, LLC, the borrower on a loan secured by a shopping mall known as Fashion Place Mall. Collectively, I may refer to these borrowers in this report and declaration as "the ING Clarion Debtors."

2. The opinions I have provided in this report are based on my review of documents that I have identified in Exhibit A hereto, including the transcripts of certain depositions or hearing testimony in these jointly administered bankruptcy cases; information available in publications relied upon by persons who research the commercial real estate market and, in particular, the regional shopping center mall field; and my many years of personal experience in the commercial real estate market, and in particular, with retail shopping malls. Attached as Exhibit B is my resume, which provides more detail regarding my background pertinent to the testimony I provide in this report, and identifies my published articles. My experience has included participation in the development of retail shopping malls, including mall expansions and renovations; investment in retail shopping malls; and the asset management of such malls. Before I was retained in this matter, I had, in the course of my career in commercial real estate,

visited most of the shopping malls involved in this motion to dismiss and was familiar with General Growth Properties, Inc. ("GGP") and its portfolio of similar malls. I am currently a member of the Urban Land Institute's Commercial and Retail Development Council and have served on ULI's Research Committee. I also am past chairman of the International Council of Shopping Centers' Research Committee. I have been honored by peers in my field with the Distinguished Service Award of the Trustees of the International Council of Shopping Centers. I am being compensated for my services in this matter at the rate of $4,000 per day for research and investigation and $5,000 per day for time spent in providing deposition or court testimony. I have not testified as an expert witness in a deposition, hearing or trial in the last four years.

3. From reviewing the depositions of Messrs. Nolan and Mesterharm as Debtors' designees at depositions that I understand were taken pursuant to Federal Rule of Civil Procedure 30(b)(6) and Federal Rule of Bankruptcy Procedures 2030 and Mr. Mesterharm's testimony in the Bankruptcy Court at the hearing on May 8, 2009, it appears that Debtors contend that each of them satisfied one or more specific factors identified by GGP or its advisors that made them candidates to join GGP and other affiliates of GGP that had decided to seek bankruptcy protection, especially when further consideration is given to support GGP and its affiliates provide through various management and other services to these Debtors and their mall properties. In some of that testimony, these services are presented as though they were superior to any such services that others might provide, or that comparable service would not be available at all from any source other than a GGP-affiliated entity.

4. I have reviewed the unaudited income statements for each of the malls for the year ending December 31 2008, and budgets of income and expenses that were prepared in a

similar manner. These forms of income statement reflect a presentation that differs from the typical presentation of a mall's Net Operating Income, or "NOI."

5. In the retail shopping mall industry NOI is an important indicator of how the mall performs in controlling costs in relation to revenue, and it is also a key determinant of value. Although the unaudited 2008 income statements and the 2009 budgets prepared for the ING Clarion Debtors generally do not present NOI in the form in which it is computed in this industry, I have reviewed NOI forecasts prepared for Debtors that do appropriately remove depreciation and amortization from the operating expenses that are subtracted from gross income to determine NOI, while including a management fee as an expense that is deducted from gross revenue, along with other operating expenses, to determine NOI. For reasons explained later in this report, I do not believe that all of the "headquarters cost allocation" found in some of the ING Clarion Debtors' NOI calculations or budgets are reasonable or properly categorized as operational expenses to be deducted with other operating expenses in determining NOI.

6. From my personal experience in reviewing data for hundreds of regional and super regional malls, which are the type of malls owned by the ING Clarion Debtors, and from Dollars & Cents of Shopping Centers/The SCORE, a report that is widely used in this industry, it is my opinion that there are reputable third party providers of management services that charge about 3% of gross revenue for their provision of a cash management system, operational management of the mall, vendor negotiations and similar management services. However, for purposes of this report, I have accepted as reasonable, though higher than usual, the 4% of gross revenue used as a management fee expense in the NOI calculations that the ING Clarion Debtors have used in certain loan to value ("LTV") calculations identified in Deposition Exhibit ING 24.

Having considered the various testimony from GGP's and the Debtors' witnesses in declarations, hearings and depositions about the nature and extent of the services provided to the ING Clarion Debtors, I believe that comparable services (excluding additional management associated with a major capital expenditure to expand or renovate a mall) could be obtained for no more than 4% of gross revenues. Using this 4% management fee rate and removing depreciation and amortization from operating costs, I have prepared Exhibit C hereto, which summarizes the NOI and NOI as a percentage of gross revenue for each of the malls at issue, based on their unaudited 2008 income statements and 2009 budgets.

7. The published industry survey <u>Dollars & Cents of Shopping Centers, The SCORE 2008</u> reflects that a typical retail mall or super regional mall produces a ratio of operating expense to gross revenues that is approximately 30%, leaving the remaining revenue available to cover debt, depreciation and amortization, other expenses not properly characterized as operating expense and to provide profit for the owner. The testimony I have reviewed from GGP's and the ING Clarion Debtors' witnesses seems to claim that GGP's method of providing cash management and other typical operational management services to properties within the GGP family of entities has resulted in significant operational benefits to the properties. However, Mr. Mesterharm acknowledged in his deposition as the ING Clarion Debtors' representative that there has been no comparison with industry data or otherwise to see whether, for example, the "national" contracts for goods or services that GGP-affiliated entities have negotiated for GGP-affiliated malls, including the ING Clairon Debtors' properties, were at better rates than other shopping malls that use others for management services have obtained. Mr. Mesterharm could only state that when GGP converted to national procurement, it obtained better prices than its

local mall managers had been obtaining. In looking at the data reflected in Exhibit C, I see no pattern of superior performances by the ING Clarion Debtors' properties in their ratios of operating expense to gross revenues. Some of the malls at issue perform better than the industry average of about 30%, while five of them perform below the industry average. Without actual comparisons of costs for comparable services obtained by these malls using GGP affiliates with the costs obtained by others who provide third party mall management services for other malls, it is my opinion that one cannot conclude that, should GGP-affiliated entities cease providing management services to these ING Clarion Debtors, they could not replace those services by retaining third party managers capable of providing services of comparable benefit for management fees in the 3% to 4% range.

8. While it is true, as Mr. Mesterharm testified during his deposition, that there has been consolidation in the number of companies offering third party management for shopping malls, there nevertheless are reputable national companies with long and successful histories in providing such services, some of which Mr. Mesterharm mentioned in his testimony, such as Jones Lang LaSalle and Urban Retail. In addition, some more recent entrants to the field of third party mall management now are competing for this business, including the Simon Property Group and CBL Properties, that have strong backgrounds in ownership, development and operation of regional malls that should enable them to provide effective management services for third parties, just as they have provided them for their own properties.

9. In the 2009 budgets for each of the ING Clarion Debtors' properties, as Mr. Mesterharm testified in his deposition, there is a "Headquarters Cost Allocation" assigned to each of the properties that appears as an operating expense. These budgets do not use the 4%

management fee assumed in the 2010 projected NOI used in Deposition Exhibit ING 24. Attached as Exhibit D is a chart in which I have calculated the effective percentage of gross revenue that these allocations of headquarters costs, derived using the methodology described in Mr. Mesterharm's deposition testimony and also in Deposition Exhibit ING 38, produce for each of the properties. For several of the properties, the headquarters allocation results in total costs for management services that are extraordinarily high in relation to industry standards. Even taking into account that capital expenditures projects were assumed for certain malls, cost allocations in excess of 8% of gross revenue are out of line with industry standards. Further, any additional management fee incurred as a result of management required for capital projects usually is presented as part of a capital expenditures budget, rather than as an ordinary operating expense, and thus does not impact the typical NOI calculation for a mall. If the ING Clarion Debtors relied on such cost allocations in considering whether they had a current need for protection in bankruptcy to reorganize their affairs, NOI forecasts for the ING Clarion Debtors whose headquarters cost allocation is 8% or more were significantly altered and unfairly distorted.

10. I reserve the right to alter or supplement this report in the event of further production of documents or other discovery obtained from GGP or the ING Clarion Debtors.

Dated: June 10, 2009

Dougal M Casey

Dougal M. Casey

EXHIBIT A

Deposition of Thomas H. Nolan, Jr. as ING Clarion Debtors' representative pursuant to Fed. R. Civ. P. 30(b)(6) and Bankruptcy Rule 7030

Deposition of James Alan Mesterharm, as ING Clarion Debtors' representative pursuant to Fed. R. Civ. P. 30(b)(6) and Bankruptcy Rule 7030

Transcript of May 8, 2009 hearing

Declaration of James A. Mesterharm, dated April 16, 20909

Declaration of Adam S. Metz, dated April 15, 2009

Deposition Exhibit ING 24

Deposition Exhibit ING 38

GPP-Lenders-0000040144

Year end 2008 unaudited income statements for each of the ING Clarion Debtors' properties

2009 budgets of income and expense for each of the ING Clarion Debtors' properties

Dollars & Cents of Shopping Centers/The SCORE, 2008 ed. (Urban Land Institute and International Council of Shopping Centers)

Descriptions of available mall management services from websites www.cblproperties.com; www.jllretail.com; www.urbanretail.com; and www.simon.com

Comments on

DOUGAL M. CASEY

Doug Casey heads Development Metrics Consulting, which offers advice and counsel on real estate investment, development, and analysis. Until 2007 Mr. Casey was a Managing Director and a member of the private equity Investment Committee at ING Clarion Partners, which manages more than $46 billion in real estate on behalf of major public and private pension funds. After joining ING Clarion in 1993 he headed the firm's Investments Strategy and Research Group and the firm's Investment Risk Management Program. He has directed, managed and performed retail, office, residential, apartment, hotel and industrial studies in major markets across the U.S.

Prior to joining ING Clarion Partners, Mr. Casey spent thirteen years with Homart Development Co., the former real estate subsidiary of Sears, Roebuck and Co. There he headed its Research Department before joining its Regional Mall Development Group and later it's Capital Markets Group.

Prior to Homart, Mr. Casey joined the Taubman Company as Assistant Vice President, Marketing Services; before that he was Vice President of the real estate consulting firm of Hammer, Siler, George Associates and of its subsidiary, HSG/Gould Associates.

In addition to his Master of City Planning from Ohio State University, Mr. Casey holds a B.A. in Political Science from Catholic University in Washington, D.C. and a J.D. from that university's School of Law. He is a Fellow in the Royal Institution of Chartered Surveyors and is a member of the Counselors of Real Estate, Lambda Alpha, and the Urban Land Institute's Commercial and Retail Development Council. He has also been a member of the ULI's Research Committee, is a past Chairman of the International Council of Shopping Centers' (ICSC) Research Committee, and has served on the ULI's Dollars and Cents of Shopping Centers Steering Committee.

Mr. Casey has lectured at a number of colleges and universities, including the MIT Center for Real Estate Development, Northwestern University's Kellogg School of Business, the University of Pennsylvania's Wharton School and the University of Wisconsin; in addition he has made major presentations at the ICSC's Annual Convention, the ULI's semi-annual Council Forum, and the CRE's semi-annual meeting. He co-authored the ULI's publication, *Developing Power Centers*; he also wrote Homart's white paper, *The Future of Regional Malls*: *1993-2000*; Jones Lang Wootton Realty Advisor's *Perspective on Power Centers*; ING Clarion's *Perspective on the U.S. Apartment Market, 2000-2010*; several articles on retail real estate trends for the ICSC's *Research Quarterly*, and several ICSC white papers, including *Retail Sales and Shopping Center Sales, 2003* and *Overstoring: A Look at Retail Space and Sales Performance.* He co-authored the IFE papers "*Multi-Family Rental Housing Demand, 1990-2000* and *Multi-Family Rental: What's Hot and What's Not*, and authored *Retailing on the Internet* for the PREA Quarterly. Mr. Casey is recipient of the ICSC Trustees' Distinguished Service Award.

EXHIBIT B

EIGHT GGP CENTERS' OPERATING COSTS AS A PERCENT OF GROSS REVENUE, RESTATEMENT 1.0*
2008 – 2009

	2008	2009
Fashion Place	25.0%	26.2%
Park City	34.3%	34.3%
Regency Square	45.1%	47.7%
Stonestown	40.6%	38.9%
Tucson Mall	33.1%	29.1%
Valley Plaza	28.5%	26.0%
Visalia Mall**	26.3%	26.9%
Washington Park**	47.9%	45.5%

<u>Dollars & Cents of Shopping Malls, the SCORE</u>, 2008 ed.
Regionals** 31.8% (average)
Super-Regionals 26.6% (average)

* Reflects adjustment to 2008 income statements to remove Depreciation and Amortization from operating costs and to include in both 2008 income statements and in 2009 budgeted income an operating cost for management services equal to 4% of gross revenue. When 2009 budgets reflect "Headquarters Cost Allocation," the 4% management fee has been used in place thereof.

<u>EXHIBIT C</u>

HEADQUARTERS COST ALLOCATION AS % OF GROSS REVENUES
2009 BUDGET

2009 Budget

	Gross Revenue	Headquarters Cost Allocation	%
Fashion Place	23,414	6,220	26.6%
Park City	31,255	1,730	5.5%
Regency Square	20,239	1,838	9.1%
Stonestown	29,952	3,801	13.6%
Tucson Mall	32,305	624	1.9%
Valley Plaza	26,557	3,868	14.6%
Visalia Mall	11,104	954	8.6%
Washington Park	2,957	133	4.5%

EXHIBIT D